US$800,000,000

Banco BTG Pactual S.A.

a *sociedade anônima* incorporated in the Federative Republic of Brazil

(acting through its Cayman Islands Branch)

5.75% Subordinated Notes due September 28, 2022

Banco BTG Pactual S.A., a *sociedade anônima* incorporated in the Federative Republic of Brazil, or Banco BTG Pactual, acting through its Cayman Islands Branch, is issuing US$800,000,000 aggregate principal amount of 5.75%% Subordinated Notes due September 28, 2022, or the Notes. The Notes bear interest from September 28, 2012 and will be payable semiannually in arrears on March 28 and September 28 of each year, commencing on March 28, 2013, or the Interest Payment Dates. See "Description of the Notes—General."

The Notes are our unsecured and subordinated obligations. Payment of principal on the Notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation, dissolution, winding up or similar events, and we will only be required to make payment on acceleration after our dissolution or winding up for purposes of Brazilian law. There will be no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal or interest in respect of the Notes. Subject to the approval of the Central Bank of Brazil (*Banco Central do Brasi*l), or the Central Bank, and any other applicable Brazilian governmental authority, if such approval is then required, the Issuer may redeem the Notes in whole, but not in part, following the occurrence of certain changes affecting taxation and the classification of the Notes as Tier 2 Capital. See "Description of the Notes—Optional Redemption."

If we are not in compliance with operational limits required by current or future regulations generally applicable to Brazilian banks, or the risk-based capital requirements, or if the payment of interest or principal (and any other amounts payable in respect thereof) would cause us to fail to be in compliance with those operational limits, we may defer any payments under the Notes (including payment of interest or principal) until we are in compliance with those operational limits and such payments (1) would no longer cause us to fail to be in compliance with those operational limits and (2) are authorized (to the extent that such authorization is required) by the Central Bank or any applicable Brazilian governmental authority.

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange, or the Euro MTF, which is not a regulated market within the meaning of the Directive 2004/39/EU of the European Parliament and of the Council of April 21, 2004 concerning markets in financial instruments This Offering Memorandum constitutes a prospectus for the purposes of the Luxembourg Act dated July 10, 2005, as amended, on prospectuses for securities and may only be used for the purpose for which it has been published.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 27.

There is currently no public market for the Notes. The Notes have not been and will not be registered under the U.S. Securities Act of 1933 as amended, or the Securities Act, or securities laws of any jurisdiction. Accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S of the Securities Act, or Regulation S), except to certain "qualified institutional buyers" (as defined under Rule 144A of the Securities Act, or Rule 144A), or QIBs, that are also "qualified purchasers" (as defined in Section 2(A)(51) of the U.S. Investment Company Act of 1940, as amended, and related rules, or the Investment Company Act), or QPSs, in reliance on exemptions from registration provided under the Securities Act and to certain non–U.S. persons in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the exemption from the provisions of the Investment Company Act provided by Section 3(c)(7), or (3)(c)(7). For a description of certain restrictions on transfers of the Notes, see "Transfer Restrictions" and "Certain ERISA Considerations."

Price: 98.140% plus accrued interest, if any, from September 28, 2012.

The Notes were ready for delivery in book-entry form through The Depository Trust Company, or the DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, as of September 28, 2012.

Joint Bookrunners

BB Securities **Bradesco BBI** **BTG Pactual** **Citigroup** **Deutsche Bank Securities**

Co-Manager

CITIC Securities International

The date of this Offering Memorandum is October 29, 2012.

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

(i) “Banco BTG Pactual,” “we,” “us,” “our,” or “ourselves” are to (A) Banco Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period prior to December 1, 2006, (B) Banco UBS Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to the period from and including December 1, 2006 through September 18, 2009 and (C) Banco BTG Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period on or after September 19, 2009;

(ii) “BTG Alpha” are to BTG Alpha Investments LLC, a limited liability company organized under the laws of Delaware, which was a wholly-owned indirect subsidiary of BTGI until March 31, 2010;

(iii) “BTG GP” are to BTG Pactual Management Ltd, an exempted company incorporated under the laws of Bermuda and the holder of one Class C voting common share of the share capital of BTG Pactual Participations, which (A) has no economic rights and (B) is currently held indirectly by André Santos Esteves and the Top Seven Partners, pursuant to which Mr. Esteves indirectly controls BTG Pactual Participations;

(iv) “BTGI” are to BTG Investments L.P., an exempted limited partnership established under the laws of Bermuda, and its consolidated subsidiaries;

(v) “BTG Pactual Group” are to Banco BTG Pactual, BTGI, BTG Pactual Participations and their respective subsidiaries, collectively, except when these references relate to financial information included elsewhere in this Offering Memorandum, in which case such references are to Banco BTG Pactual and BTGI and their respect subsidiaries, collectively, excluding BTG Pactual Participations;

(vi) “BTG Pactual Holding” are to BTG Pactual Holding S.A., a corporation (*sociedade anônima*), organized under the laws of Brazil, which (A) directly owns a majority of our common shares issued and outstanding and directly owns all of the our capital stock that is part of our Partnership Equity, (B) is owned by the Partners and (C) is controlled by André Santos Esteves, our controlling shareholder;

(vii) “BTG Pactual Participations” are to BTG Pactual Participations Ltd, a limited liability exempted company incorporated under the laws of Bermuda, which (A) is the general partner of BTGI and (B) is the holding company of the partnership interests of BTGI indirectly purchased by unit holders in the initial public offering of the BTG Pactual Group in April 2012;

(viii) “Issuer” are to Banco BTG Pactual S.A. without its consolidated subsidiaries, acting through its Cayman Islands Branch;

(ix) “members of the Consortium” are to the consortium of international investors who invested in our equity in December 2010 and include Pacific Mezz Investco S.A.R.L (Pacific Mezz), an affiliate of Government of Singapore Investment Corporation Pte Ltd, China Investment Corporation (CIC) (through Beryl County LLP), Ontario Teachers’ Pension Plan Board (OTPP) (directly and through Classroom Investments Inc.), Abu Dhabi Investment Council (ADIC) (through Hanover Investments (Luxembourg) S.A.), J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia (through Sierra Nevada Investments LLC), EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía (through Rendefeld, S.A.), the holding company of the Motta family of Panama, as well as equity securities in BTG Pactual Participations and BTGI, which immediately following the sale by Europa Lux III S.a.r.l, RIT Capital Partners plc, Marais LLC, EXOR S.A. and Rendefeld, S.A. of part of their equity interest in the BTG Pactual Group in the BTG Pactual Group's initial public offering, collectively owned 12.19% of our outstanding economic interests;

(x) "Merchant Banking Partnership" are to BTG MB Investments L.P., an exempted limited partnership established under the laws of Bermuda, which is (A) owned by the Partners and (B) directly owns BTG Alpha;

(xi) "Participating Partners" are to the Partners that purchased our common and preferred shares, BTGI Class D partnership interests and Class D shares of BTG Pactual Participations at the same time, on the same terms and as part of the same transaction, as the members of the Consortium, which as of the date of this Offering Memorandum, collectively represents approximately 2.37% of our outstanding economic interests;

(xii) "Partners" are to the individuals who, collectively (together with their family members, trusts or other entities established for their benefit or the benefit of their family members) directly or indirectly currently hold our common and preferred shares as well as equity securities in BTG Pactual Participations and BTGI, which as of the date of this Offering Memorandum, collectively represents approximately 77.11% of the outstanding economic interests in the BTG Pactual Group (which includes approximately 2.37% of outstanding economic interests in the BTG Pactual Group that was purchased by the Participating Partners at the same time and on the same terms as the members of the Consortium), together with any individuals that in the future, directly or indirectly, hold equity interests in the BTG Pactual Group, and who are employees (or act in a similar capacity) of one or more entities within the BTG Pactual Group;

(xiii) "Senior Management Team" are to the following individuals: André Santos Esteves, Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, John Huw Gwili Jenkins, Antonio Carlos Canto Porto Filho, Rogério Pessoa Cavalcanti de Albuquerque, Jonathan David Bisgaier, Antoine Estier, John Fath, Emmanuel Rose Hermann, Steve Jacobs, Eduardo Henrique de Mello Motta Loyo, James Marcos de Oliveira, Guilherme da Costa Paes, Renato Monteiro dos Santos, André Fernandes, David Herzberg, Roberto Isolani, Roger Jenkins, David Martin, João Marcello Dantas Leite, Carlos Daniel Rizzo da Fonseca, José Octavio Mendes Vita and José Zitelmann;

(xiv) "Top Seven Partners" are to the Partners (other than André Santos Esteves) that have the seven largest equity stakes in Banco BTG Pactual and BTGI. As of the date of this Offering Memorandum, the Top Seven Partners are Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, Antonio Carlos Canto Porto Filho, Emmanuel Rose Hermann, James Marcos de Oliveira and Renato Monteiro dos Santos; and

(xv) "units" are to (i) global depositary units listed on the BM&FBOVESPA representing (A) one common share and two preferred shares of our capital stock and (B) one voting share and two non-voting shares of BTG Pactual Participations in the form of Brazilian depositary receipts and (ii) global depositary units listed on Alternext Amsterdam representing (A) one voting share and two non-voting shares of BTG Pactual Participations and (B) one common share and two preferred shares of our capital stock in the form of global depositary shares.

You should assume that the information appearing in this Offering Memorandum is accurate as of the date on the front cover of this Offering Memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this Offering Memorandum.

We have prepared this Offering Memorandum for use solely in connection with the proposed offering of the Notes described in this Offering Memorandum.

The Initial Purchasers make no representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or future.

This Offering Memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes contained in the Indenture being entered into in connection with the issuance of the Notes as described herein and other transaction documents described herein. The market information in this Offering Memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained in this Offering Memorandum, the Initial Purchasers accept no liability in relation to the information contained in this Offering Memorandum or its distribution or with regard to any other information supplied by us or on our behalf.

Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this Offering Memorandum and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the Initial Purchasers will have any responsibility therefor.

You acknowledge that:

- you have not relied on the Initial Purchasers or their agents or any person affiliated with the Initial Purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and

- no person has been authorized to give any information or to make any representation concerning us or the Notes other than those as set forth in this Offering Memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers or their agents.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing the Notes, you will have made, or be deemed to have made, certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this Offering Memorandum. The Notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Plan of Distribution” and “Transfer Restrictions.”

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal, investment or similar laws or regulations.

We confirm that, after having made all reasonable inquiries, this Offering Memorandum contains all information with regard to it and the Notes which is material to the offering and sale of the Notes, that the information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading and that there are no omissions of any facts from this Offering Memorandum which, by their absence herefrom, make this Offering Memorandum misleading. We accept responsibility for the information contained in this Offering Memorandum regarding us and the Notes. The opinions and intentions expressed in this Offering Memorandum regarding the Notes and the Notes are honestly held and based on reasonable assumptions.

NONE OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY UNITED STATES STATE SECURITIES COMMISSION OR ANY UNITED STATES,

BRAZILIAN OR OTHER REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THIS OFFERING MEMORANDUM HAS BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE NOTES OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A TO PERSONS WHO ARE QIBS THAT ARE ALSO QPS AND FOR LISTING OF THE NOTES ON THE OFFICIAL LIST OF THE LUXEMBOURG STOCK EXCHANGE (EURO MTF, THE ALTERNATIVE MARKET OF THE LUXEMBOURG STOCK EXCHANGE). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A AND THE EXEMPTION FROM THE PROVISIONS OF THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(c)(7). FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS OFFERING MEMORANDUM, SEE "TRANSFER RESTRICTIONS."

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ANY OFFER OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "RELEVANT MEMBER STATE") WILL BE MADE PURSUANT TO AN EXEMPTION UNDER THE PROSPECTUS DIRECTIVE FROM THE

REQUIREMENT TO PUBLISH A PROSPECTUS FOR OFFERS OF NOTES. ACCORDINGLY ANY PERSON MAKING OR INTENDING TO MAKE AN OFFER IN THAT RELEVANT MEMBER STATE OF NOTES WHICH ARE THE SUBJECT OF THE OFFERING CONTEMPLATED IN THIS OFFERING MEMORANDUM MAY ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE, IN EACH CASE, IN RELATION TO SUCH OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF NOTES IN CIRCUMSTANCES IN WHICH AN OBLIGATION ARISES FOR THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH OR SUPPLEMENT A PROSPECTUS FOR SUCH OFFER. NEITHER WE, THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF NOTES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE NOTES CONTEMPLATED IN THIS OFFERING MEMORANDUM. THE EXPRESSION "PROSPECTUS DIRECTIVE" MEANS DIRECTIVE 2003/71/EC (AND AMENDMENTS THERETO, INCLUDING THE 2010 PD AMENDING DIRECTIVE, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN THE RELEVANT MEMBER STATE AND THE EXPRESSION "2010 PD AMENDING DIRECTIVE" MEANS DIRECTIVE 2010/73/EU.

In connection with the issue of the Notes, the Initial Purchaser or Initial Purchasers (if any) named as Stabilizing Manager(s) (the "Stabilizing Manager(s)") (or persons acting on behalf of any Stabilizing Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of the Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offering is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

Pursuant to article 7, paragraph 1 of CMN Resolution No. 3,444 dated February 28, 2007, as amended, modified, supplemented or superseded from time to time, or CMN Resolution 3,444, any provision of this Offering Memorandum that conflicts with the Terms of Subordination (*núcleo de subordinação*) that sets out the subordination terms and conditions of the Notes, and is a part of the Indenture governing the Notes, will be null and void.

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

NOTICE TO INVESTORS IN THE UNITED KINGDOM

THIS DOCUMENT IS FOR DISTRIBUTION ONLY TO PERSONS WHO (I) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "FINANCIAL PROMOTION ORDER"), (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC") OF THE FINANCIAL PROMOTION ORDER, (III) ARE OUTSIDE THE UNITED KINGDOM, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT

PERSONS"). THIS DOCUMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

MARKET INFORMATION

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

ENFORCEABILITY OF JUDGMENTS IN BRAZIL

Brazil

We are a corporation (*sociedade anônima*) incorporated under the laws of Brazil and most of our, Partners, board members and executive officers, as well as most of their assets and those of such other persons, are located outside the United States. As a result, it may not be possible for you to effect service of process upon us or such other persons within the United States or other jurisdictions outside Brazil, including with respect to matters arising under the federal securities laws of the United States, or to enforce against such persons or against judgments of courts of the United States predicated upon the civil liability provisions of the federal securities law of the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Brazil.

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

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

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

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

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

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

Additionally, pursuant to our by-laws, we, our shareholders, directors and officers, and the members of our fiscal council will settle any and all disputes or controversies which may arise among themselves relating to, or originating from, the application, validity, effectiveness, interpretation, violations and effects of violations of the provisions of its by-laws, or applicable laws and regulations, pursuant to arbitration in accordance with the procedures established by the International Chamber of Commerce Court of International Arbitration.

Cayman Islands

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Applicable Accounting Standards and Currency of Financial Statements

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

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

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

As a result of our registration as a public company with the CVM, we were required to prepare consolidated financial statements for the years ended December 31, 2010 and 2011 in accordance with IFRS for the purpose of filing our offering documents with the CVM. Unless the context requires otherwise, any reference to our financial statements as of for the years ended December 31, 2009, 2010 and 2011, as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 in this Offering Memorandum are to those consolidated financial statements of Banco BTG Pactual prepared in accordance with the accounting practices applicable to institutions accredited by the Central Bank (Brazilian GAAP). No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See “Annex A: Principal Differences Between Brazilian GAAP and IFRS.”

Financial Statements

Auditors

Our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 included elsewhere in this Offering Memorandum were prepared in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and have been audited, in accordance with Brazilian and international auditing standards, by Ernst & Young Terco Auditores Independentes S.S., or Ernst & Young, independent auditors as stated in their reports appearing herein.

Our unaudited interim consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 included elsewhere in this Offering Memorandum have been subject to a limited review, in accordance with Brazilian and international standards on review engagements by Ernst & Young, as stated in their report appearing herein. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

Selected Balance Sheets and Income Statements

Our balance sheet and income statement data as of and for the years ended December 31, 2009, 2010 and 2011 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011. Our balance sheet and income statement data as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 are derived from and should be read in conjunction with our unaudited interim consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012.

Emphasis Paragraphs Included in the Auditors' Reports

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

Banco PanAmericano S.A., or Banco PanAmericano, which we jointly control with CaixaPar, was, as of December 31, 2011, not in compliance with the regulatory operating limits required by the Central Bank. During 2011, Grupo Silvio Santos, a shareholder of Banco PanAmericano at the time, contributed R$1.3 billion in funds to Banco PanAmericano, and a shareholder's deposit was also made in the amount of R$620.0 million for asset recovery purposes. In addition, in January 2012, Banco PanAmericano's shareholders approved a capital increase in an amount of up to R$1.8 billion, of which R$972.0 million was subscribed for and fully paid as of January 31, 2012. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE."

In addition, Banco PanAmericano had income and social contribution tax credits amounting to R$2,575.0 million as of December 31, 2011, as indicated in the report from our auditors to our audited consolidated financial statements as of and for the year ended December 31, 2011, and R$2,766.0 million as of June 30, 2012, as indicated in the report from our auditors to our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2012. The credits were recognized substantially on the basis of financial projections and a business plan reviewed and approved by the board of directors of Banco PanAmericano. These projections and plan include studies on current and future economic scenarios and include several assumptions. The realization of these tax credits depends on the materialization of these projections and business plan.

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

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

Functional Currency

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

Our Unaudited Adjusted Income Statement

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

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement, as further described below.

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

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

	Adjusted Income Statement	Income Statement
Revenues from our principal investments	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variations. Revenues are also reduced by associated transaction costs, and by management and performance fees paid to asset managers and other fund service providers, including our own asset management unit.	Revenues from principal investments are included in different revenue line items of our income statement, including marketable securities, derivative financial income and equity in the earnings of associates. Losses from principal investments, including trading losses and derivative expenses, are presented as financial expenses in separate line items.
Revenues from our sales and trading unit	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variations. Revenues are also deducted from transaction costs.	Revenues from sales and trading are included in numerous revenue line items of our income statement, including marketable securities, derivative financial income, foreign exchange and mandatory investments. Losses from sales and trading, including trading losses, derivative expenses and funding and borrowings costs are presented as financial expenses in separate line items.
Revenues from our corporate lending unit	Revenues are presented net of funding costs, including the cost of funding our net equity.	Revenues from corporate lending are included in certain revenue line items of our income statement, including credit operations, marketable securities and derivative financial income. Losses from corporate lending, including derivative expenses, are presented as financial expenses in separate line items.
Revenues from our PanAmericano unit	Revenues consist of our proportional share of the profits of Banco PanAmericano, and are presented net of funding costs, including the cost of funding our net equity.	The results from our proportional share of Banco PanAmericano are recorded as equity in the earnings of associates.
Salaries and benefits	Salaries and benefits include mainly compensation expenses and corresponding social security contributions.	Generally recorded as personnel expenses.
Bonus	Bonus expenses include our cash profit-sharing plan expenses, calculated as a percentage of our net revenues.	Generally recorded as employees' statutory profit sharing.

	Adjusted Income Statement	Income Statement
Retention expenses	Retention expenses include the pro rata accrual of employee retention program expense.	Generally recorded as personnel expenses.
Administrative and others	Administrative and Others are expenses such as consulting fees, offices, IT, travel, and expenses for presentations and conferences as well as other general expenses.	Generally recorded as other administrative expenses, tax charges and other operating expenses.
Goodwill amortization	Goodwill amortization of investments in operating subsidiaries other than private equity investments.	Generally recorded as other operating expenses.
Tax charges, other than income tax	Tax charges are mostly comprised of taxes applicable to our revenues which, by their nature, are not considered by us as transaction costs, including PIS, COFINS and ISS.	Generally recorded as tax charges other than income taxes.
Income tax and social contribution	Income tax and other taxes applicable to net profits.	Generally recorded as income tax and social contribution.

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

Assets Under Management

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

Wealth Under Management

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

Assets Under Administration

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

Average Balances

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

Merchant Banking and Private Equity Activities

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

Rounding

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

Convenience Translation

Solely for the convenience of the reader, we have converted certain amounts contained in "Summary," "Capitalization," "Selected Financial Information," and elsewhere in this Offering Memorandum from *reais* into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$2.0207 to US$1.00, which was the exchange rate in effect as of June 30, 2012, as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rate may fluctuate widely, and the exchange rate as of June 30, 2012 may not be indicative of future exchange rates. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

SUMMARY

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

Overview

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

Our Business

Our seven business units are:

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

We are committed to further expanding our platform outside of Brazil and in 2012 signed agreements to acquire (i) Celfin, a leading broker dealer in Chile that also operates in Peru and Colombia and (ii) Bolsa y Renta, a leading broker dealer in Colombia. Both Celfin and Bolsa y Renta have a wide array of products and services (concentrating in investment banking, sales and trading, asset management and wealth management), and upon completion of these acquisitions, we intend to further expand their operations to include many of the additional products and services we currently offer in Brazil. We believe our transactions with Celfin and Bolsa y Renta represent milestones in our efforts to replicate our history of success in Brazil throughout Latin America, and uniquely position us as a true leader throughout the region. Our acquisitions of Celfin and Bolsa y Renta remain subject to approval by the relevant governmental authorities, which we expect to receive later this year.

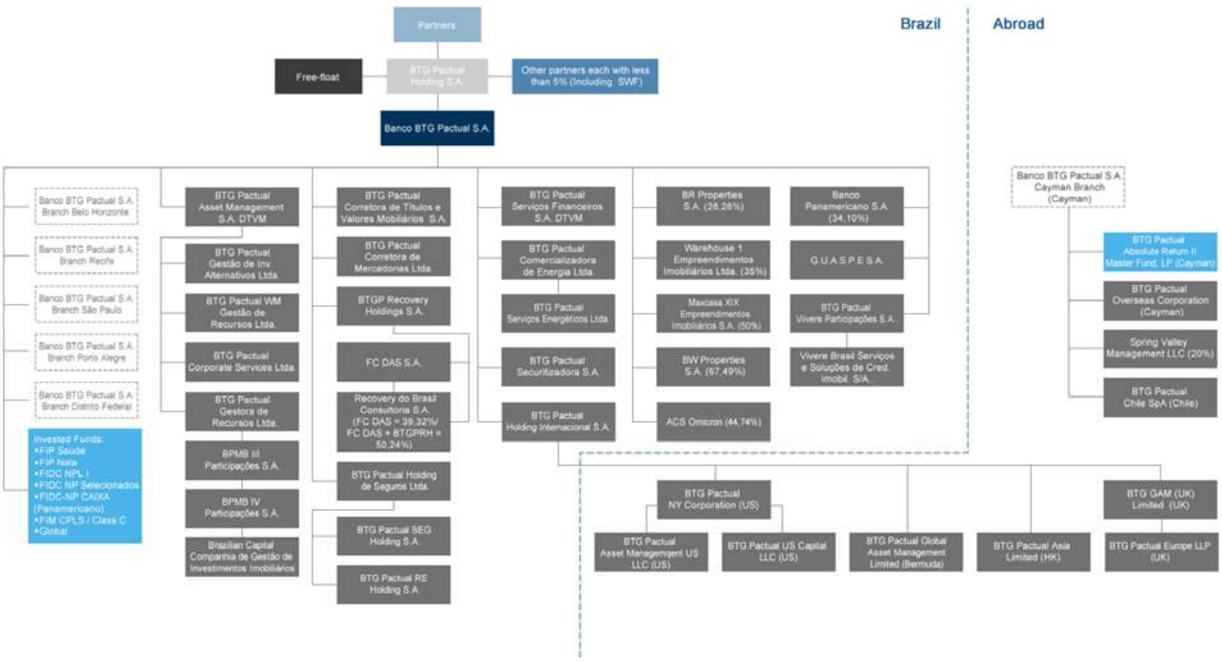
Our Group

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

As of June 30, 2012, the BTG Pactual Group had over 1,400 professionals and offices on four continents: South America (São Paulo, Rio de Janeiro, Brasília, Recife, Porto Alegre and Belo Horizonte), North America (New York), Europe (London) and Asia (Hong Kong).

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

The organizational chart of Banco BTG Pactual is set forth below.



Our Results and Financial Condition

For the year ended December 31, 2011, our revenues were R$2,647.1 million and our net income was R$1,477.1 million. As of June 30, 2012, our shareholders' equity was R$8,953.5 million, and we managed a total of R$132.5 billion in our asset management unit and R$40.8 billion in our wealth management unit. Our different business units produce a combination of fee and trading revenues that have allowed us to consistently generate strong earnings growth and positive returns on equity through varying and at times difficult economic and market conditions. For the five years ended December 31, 2011, our average return on equity was 37.6%, with no year being lower than 17.7%.

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

	As of and for the year ended December 31,			As of and for the six months ended June 30,[1]		CAGR
	2009	2010	2011	2011	2012	2009-2011
	(in R$ millions, except as otherwise indicated)					%
Total revenue[2]	1,200.0	1,983.8	2,647.1	1,240.5	2,575.3	48.5%
Net income	629.3	810.9	1,477.1	445.8	945.4	53.2%
Shareholders' equity	3,244.5	5,602.6	6,339.8	5,826.9	8,953.5	39.8%
ROAE[3] (%)	17.7%	18.3%	24.7%	15.6%[4]	24.7%[4]	–
AUM and AUA (in R$ billions)[1]	73.7	91.5	120.1	100.7	132.5	27.7%
WUM (in R$ billions)[1]	24.6	31.2	38.9	33.6	40.8	25.7%
BIS capital ratio	20.6%	21.5%	17.7%	19.3%	18.5%	–

(1) Unaudited.

(2) Derived from our unaudited adjusted income statement.

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

(4) Figures are presented on an annualized basis. Annualized ROAE as of and for the six months ended June 30, 2011 and 2012 are computed by dividing our annualized combined net income by the average shareholders' equity.

Our Partnership

We operate as a partnership, currently with 165 Partners, who are also executives in our group. The Partners currently own 77.11% of our equity, and 73.72% of our equity is part of our partnership, and we refer to such equity as "Partnership Equity." Our 36 most senior Partners, who we consider to be key contributors to our success, own approximately 64.26% of our equity. The members of a consortium of investors who purchased such equity in December 2010 own 12.19% of our equity, and the remaining equity is owned by persons who purchased our units in our initial public offering or thereafter in the public markets.

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

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to ensure that our partnership model will not change as a result of our initial public offering completed in April 2012. Most importantly, our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership

Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the BTG Pactual Group in its entirety. We believe that the substantial ownership position of our Partners and the maintenance of our partnership in which Partnership Equity is bought and sold at book value on a meritocratic basis will (i) ensure the continued commitment of our most important executives to our success following our initial public offering, (ii) permit us to maintain our unique culture and the competitive advantage it grants us and (iii) permit us to attract and retain future generations of talent, all of which create an unprecedented alignment of the interests of our senior management with the interests of public shareholders. See "Our Partnership."

Our Core Values

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

Strategic Focus: How we set our strategic direction

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

People: How we work

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

Performance Management: How we achieve superior results

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

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

Our Competitive Strengths

We believe that our competitive strengths include:

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

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

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

- were bookrunners in approximately 50% of all public equity offerings completed in Brazil from 2004 to June 2012, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007 and 2009, and the second largest equity underwriter in 2006 and 2011, according to ANBIMA. In 2010, we were the leading equity underwriter in terms of total deals completed according to ANBIMA;

- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010 and 2011 and provided advisory services in 222 announced M&A transactions from January 1, 2007 through June 30, 2012;

- have an equity research team named among the best research teams in Brazil from 2006 to 2012, and the best research team in Latin America in 2012, according to *Institutional Investor*;

- are one of the largest equity brokerage houses in Brazil in terms of total volume of securities traded, according to BM&FBOVESPA;

- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA (June 2012), with R$94.4 billion in AUM and R$96.8 billion in AUA as of June 30, 2012;

- had more than R$40.8 billion of WUM as of June 30, 2012; and

- received a number of awards recognizing the excellence of our asset management platform, including: the Best Fund Manager in the Largest Fixed Income and Flexible Mixed Allocation categories in 2012 by Standard & Poors and *Valor Econômico* – Brazil's leading financial newspaper in 2012, the Best Fixed Income Fund Manager in 2011 by *Valor Econômico*, Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by *Exame* magazine – one of Brazil's leading financial magazines, Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by *Exame* Magazine, Best Global Macro Hedge Fund (for our GEMM fund) in 2010 by *EuroHedge Awards,* Best Multi-Market Fund Manager in 2010 by *Valor Econômico*, Best Fund Manager in Brazil in the equities category from 2007 to 2009, according to Standard & Poor's (April 2009) and the Top Equity and Top Fixed Income fund manager for 2007 and 2008 and for Equities and Multi-Asset Funds for 2009 by *Valor Econômico*.

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

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

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

As a result, according to the CVM, Brazilian issuers engaged in 76 equity transactions raising R$75.5 billion in 2007, in 13 equity transactions raising R$34.9 billion in 2008, in 24 equity transactions raising R$47.1 billion in 2009, in 25 equity transactions raising R$152.2 billion in 2010 and in 25 equity transactions raising R$19.2 billion in 2011, as compared to only six equity transactions raising $6.1 billion in 2002. Brazilian issuers engaged in 57 debt transactions raising R$17.8 billion in 2007, in 82 debt transactions raising R$32.6 billion in 2008, in 170 debt transactions raising R$48.1.1 billion in 2009, in 242 debt transactions raising R$75.4 billion in 2010, in 356 debt transactions raising R$86.3 billion in 2011 and in 161 debt transactions raising R$46.0 billion in the six months ended June 30, 2012, as compared to only 43 debt transactions in Brazil raising R$3.3 billion in 2002, according to ANBIMA.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 26.0% of GDP in December 2002 to 50.6% of GDP in June 2012 according to the Central Bank.

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

The Brazilian asset management industry has also grown considerably, with AUM growing from R$739.0 billion as of December 31, 2000 to R$2,112.2 billion as of June 30, 2012, according to ANBIMA, of which 9.0% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2011, the Brazilian gross disposable income was R$4,069.6 billion, compared to R$1,653.6 billion in 2003, representing an increase of 146.1% and an average compound annual growth, or CAGR, of 10.5%, according to the IBGE. We believe that increasing wealth in Brazil will stimulate growth in all our business units.

Broad Network of International Contacts

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

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

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

We operate under a partnership model and a flat management structure that emphasizes the value of intellectual capital, entrepreneurship and meritocracy. We believe this model is the key to our success. We are managed by our Senior Management Team covering our Brazilian and international operations. We have 165 Partners that currently own, directly or indirectly, approximately 77.11% of our equity.

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

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

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

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

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

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 15 years ended December 31, 2011. For the five years ended December 31, 2011, our average return on equity was 37.6%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2007 to 2011 has been on average 21.2%. As of June 30, 2012, we had a capital ratio of 18.5%. We believe that our track record of consistently maintaining a higher capital ratio than that required by the Central Bank while consistently generating attractive returns on equity highlights our ability to deploy capital efficiently.

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

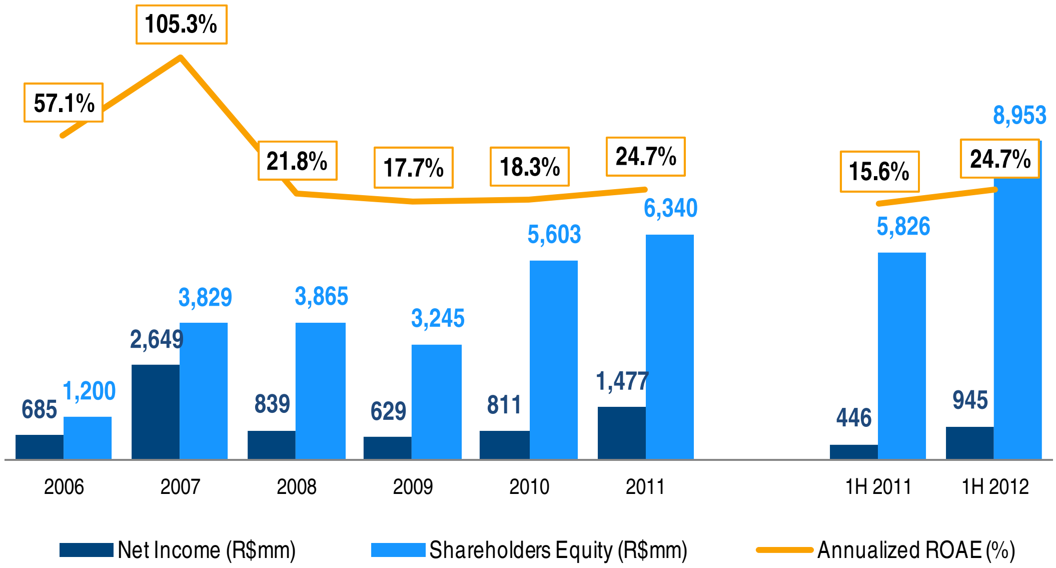
The following table sets forth our average daily VaR and our average daily VaR as a percentage of total equity for the periods indicated:

	For the year ended and as of December 31,			For the three months ended		
	2009	2010	2011	December 31, 2011	March 31, 2012[(1)]	June 30, 2012[(1)]
	(in R$ millions, except percentages)					
Total average daily VaR	10.3	21.6	32.3	43.2	57.6	52.6
Average daily VaR as % of average equity	0.29%	0.49%	0.54%	0.72%	0.88%	0.67%

(1) Unaudited.

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

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



Experienced Management Team and Motivated Work Force

We have a group of highly talented professionals with a strong reputation in the Brazilian and international financial markets. This group was responsible for establishing and implementing the strategies that permitted us to become one of Brazil's leading financial institutions. Our team includes André Santos Esteves, who was named in 2010 one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real* Plan. Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking and asset management business units. These team members have been selected based on both their previous histories of success and our belief that they shared our distinctive business culture and would serve as the cornerstones for implementing this culture in our international offices and in our businesses generally going forward.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2011, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer in the offering) was US$1.7 million, while the average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley and Credit Suisse was US$627.5 thousand.

Our Diversified Portfolio of Businesses

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

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

	For the year ended December 31,			For the six months ended June 30,	
(Unaudited)	**2009**	**2010**	**2011**	**2011**	**2012**
			(in R$ millions)		
Investment banking	215.8	344.0	338.3	198.7	178.8
Corporate lending	63.2	251.1	366.5	187.8	241.6
Sales and trading	560.8	637.8	999.9	345.8	895.9
Asset management	295.7	298.4	443.2	160.7	349.1
Wealth management	49.7	103.5	144.5	69.2	72.3
PanAmericano(1)	–	–	(52.0)	24.1	(118.8)
Principal investments	24.0	201.6	(111.2)	13.4	689.1
Interest and other(2)	(9.2)	147.4	518.1	240.9	267.3
Total revenues	**1,200.0**	**1,983.8**	**2,647.1**	**1,240.5**	**2,575.3**

(1) Our commercial banking activities commenced after the acquisition of a co-controlling interest in Banco PanAmericano on May 27, 2011, and are conducted exclusively through that non-consolidated investment. Accordingly, we did not record any revenues for our PanAmericano business unit in 2009 and 2010.

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

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

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

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

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

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. In April 2011, we enhanced our liquidity profile through the issuance of R$3.975 billion in local subordinated notes with an average maturity of 7.8 years and in July 2011 with the issuance under our US$3,000,000,000 Global Medium-Term Note Programme, or the Programme, of US$500 million in senior notes due 2016, which accrue interest at a rate of 4.875%. As of June 30, 2012, we had more than 200 depositors.

Our Strategy

Our principal strategies are:

Capitalize on Brazil's Outstanding Growth Perspectives

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

- a favorable macroeconomic environment and political stability;
- a sound institutional and regulatory framework;
- improved corporate governance;
- a sophisticated and deep domestic financial market;
- a highly attractive investment environment;
- a growing middle market and middle income consumer base; and
- numerous companies well-positioned to continue to grow and tap international markets.

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

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

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

- continuing to actively market our equity and debt capital markets services to Brazilian issuers, with a view toward maintaining and expanding our position as the leading Brazilian underwriter;

- seeking to expand our M&A advisory business, both for Brazilian companies seeking to acquire businesses in Brazil or abroad, and foreign companies seeking to acquire Brazilian businesses and assets;

- continuing to be the leading independent Brazilian asset manager and a leading independent wealth manager and expanding our efforts to market these products;

- seeking to continuously develop new and sophisticated FICC products for our corporate clients to meet their needs as they grow both in Brazil and internationally;

- taking advantage of private sector and pre-IPO investment opportunities sourced through our extensive Brazilian network;

- continuing to develop the business conducted in our regional Brazilian offices outside of São Paulo and Rio de Janeiro; and

- expanding our credit products and derivatives portfolio, leveraging Banco PanAmericano's independent commercial and consumer banking platform and taking advantage of expected growth in the Brazilian middle market and middle income consumer base.

Maintain Our Distinctive Culture

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to maintain our partnership model following our initial public offering completed in April 2012. Currently, approximately 73.72% of our total equity is Partnership Equity that is owned by our Partners as part of our partnership. Our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions. Accordingly, none of our Partners sold any units or underlying securities in our initial public offering or are expected to sell such securities for the foreseeable future (i.e., we expect that the Partnership Equity will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the entire BTG Pactual Group). These mechanisms result in a substantial amount of the economic burden of incentivizing our most important executives to fall on our existing Partners, rather than Banco BTG Pactual or the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 77.11% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See "Our Partnership."

Take Advantage of Attractive Growth Opportunities through Strategic Acquisitions

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

Expand Our International Operations

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

Celfin is a leading broker dealer in Chile, a country with robust capital markets that is a net exporter of capital. Similarly, Bolsa y Renta is one of the leading broker dealers by volume of equity transactions in Colombia, with a portfolio of US$2.57 billion in wealth under management and US$873.8 million in assets under management as of June 30, 2012. We believe that we can distribute many of our Brazilian and international asset management, wealth management and corporate finance products to the respective existing client bases of Celfin and Bolsa y Renta, who are seeking additional investment options, and that our extensive experience in mergers and acquisitions and corporate finance transactions will enhance their product offerings in these areas, permitting us to enhance the revenues that Celfin and Bolsa y Renta can generate from their respective impressive bases of leading Chilean and Colombian corporate clients.

We also see Colombia (where Bolsa y Renta is based and Celfin more recently commenced operations) and Peru (where Celfin has operations) as key to our efforts to achieve substantial additional geographic diversification. These countries, like Brazil a decade ago, have incipient capital markets, an expanding consumer class and numerous companies seeking capital for growth. We were among a small handful of financial institutions that led the efforts to develop and deepen Brazil's debt, equity and mergers and acquisitions markets in the last decade, and believe that we can replicate our Brazilian success in Colombia and Peru to achieve significant market share in these markets, which we expect will grow substantially in the coming years. We also believe that many Brazilian, Chilean, Colombian and Peruvian companies will be seeking to expand throughout Latin America, and that our local presence in each of these key Latin American markets makes us uniquely positioned to provide financial services to these companies. In addition, we have also entered into a strategic cooperation agreement with VTB Capital, a leading investment bank in Russia, to explore opportunities between Russia and Latin America.

Selectively Expand Our Portfolio of Credit Products and Derivatives

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

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

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

Continue to Develop Our Merchant Banking and Private Equity Businesses

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

Significant Recent Developments

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

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

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

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

Celfin. On February 8, 2012, we entered into definitive agreements to purchase all of the outstanding shares of Celfin. In connection with the transaction, we will pay the owners of Celfin a total of US$486.0 million in cash, and US$245.7 million of such amount will be used to purchase equity interests in us and BTGI, respectively. Such equity is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so. On April 2, 2012, we approved the issuance of warrants in relation to this transaction in the total amount of US$196.0 million, which must be exercised by December 31, 2012. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals. We expect the transaction to close later this year, although there can be no assurance that the transaction will be concluded. We do not expect that the acquisition of Celfin, if consummated, will materially affect our financial condition or results of operations.

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

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

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

Bolsa y Renta. On June 14, 2012, we entered into a definitive agreement to purchase 100% of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for approximately US$51.9 million, thus concluding negotiations initiated with Bolsa y Renta in 2011. In connection with the transaction, Bolsa y Renta's current shareholders will invest approximately US$32.5 million in our equity and the equity of BTG Pactual Participations, pursuant to which they will receive units representing approximately 0.25% of our total capital stock and the capital stock of BTG Pactual Participations (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to our initial public offering. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory and corporate approvals in Brazil and Colombia.

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

Our History

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

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

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

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

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

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

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

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

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

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

BTGI had approximately US$1.3 billion in AUM (including proprietary and third party capital) and more than 100 employees when its Partners signed a contract to acquire us (then Banco UBS Pactual S.A.) and its subsidiaries on April 19, 2009. The transaction represented the return of many members of our Senior Management Team to the bank, and reunited this team with many of their former partners who had remained at the bank throughout the period following the sale to UBS AG. The transaction closed in September 2009, creating the group now known as BTG Pactual.

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

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

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

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

THE OFFERING

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

Issuer	Banco BTG Pactual, S.A., acting through its Cayman Islands branch.
Initial Purchasers	BB Securities Limited, Banco Bradesco BBI S.A., Banco BTG Pactual S.A.—Cayman Branch, CITIC Securities Corporate Finance (HK) Limited, Citigroup Global Markets Inc., Deutsche Bank Securities Inc.
The Notes..	US$800,000,000 aggregate principal amount of 5.75% subordinated notes due September 28, 2022.
Issue Price...	98.140% of the principal amount, plus accrued interest, if any, from September 28, 2012.
Maturity Date...	September 28, 2022, provided, that principal, interest and other amounts due on the Notes may be deferred under the circumstances described in "—Deferral of Principal and Interest" below.
Issue Date	September 28, 2012.
Indenture..	The Notes were issued under the Indenture dated as of September 28, 2012 among us, Deutsche Bank Trust Company Americas as trustee, registrar, paying agent and transfer agent, and Deutsche Bank Luxembourg S.A., as Luxembourg transfer agent and Luxembourg paying agent.
Interest	The Notes bear interest from September 28, 2012 at the rate of 5.75% per annum, payable semiannually in arrears. Default interest will accrue at the Note Rate plus 1.0% per annum. Deferred principal, interest and other amounts due on the Notes will accrue interest at the Note Rate plus 1.0% per annum as calculated in "—Deferral of Principal, Interest and Other Amounts."
Interest Payment Dates	March 28 and September 28 of each year, commencing on March 28, 2013.
Deferral of Principal, Interest and Other Amounts...	If (1) on any Interest Payment Date, Maturity Date or Redemption Date, we are not in compliance with the Risk-Based Capital Requirements, or (2) any payment of principal, interest or any other amount due on the Notes would cause us to fail to be in compliance with any of the Risk-Based Capital Requirements; on any Payment Date, such payment of principal, interest or any other amount due on the Notes, as the case may be, will not be due at that time and we shall defer that payment of principal, interest or any other amount relating thereto in full until the date no later than 14 days after the first date we become aware pursuant to our financial statements filed with the Central Bank that it is in compliance with the Risk-Based Capital Requirements and (i) such payment of principal, interest

or other amount due on the Notes, or any portion thereof, would no longer cause us to be in violation of the Risk-Based Capital Requirements (unless on such date we are again not in compliance, or such payment would result in it not being in compliance, with the Risk-Based Capital Requirements) and (ii) such payment of principal, interest or other amount due on the Notes is authorized (to the extent that such authorization is required) by the Central Bank or any other applicable Brazilian Governmental Authority. The deferral of any payment in accordance with this provision will not constitute an Event of Default under the Notes.

All Amounts in Arrears bear interest at the Note Rate plus 1.0% per annum. Any deferred interest amounts will be calculated by us on each Interest Payment Date only for the purpose of calculating the interest accruing thereafter on Amounts in Arrears. The Additional Interest Amount accrued up to any Interest Payment Date will be added, for the purpose only of calculating the Additional Interest Amount accruing thereafter, to the Amount in Arrears remaining unpaid on such Interest Payment Date so that it will itself become an Amount in Arrears. See "Description of the Notes—Deferral of Principal and Interest."

Ranking .... The Notes are our direct, unsecured obligations, and, in the event of our bankruptcy, liquidation or dissolution under Brazilian law, will be subordinated obligations ranking:

- junior in right of payment to the payment of all our Senior Indebtedness;
- *pari passu* (i) themselves and (ii) with any Liabilities approved or to be approved by the Central Bank and to be classified, in whole or in part, as Tier 1 Capital or Tier 2 Capital pursuant to CMN Resolution No. 3,444; and
- senior to our capital stock.

"Senior Indebtedness" means all our Liabilities other than (i) the Pari Passu Liabilities and (ii) the Junior Liabilities.

"Liabilities" means all liabilities of any person, including, but not limited to, (i) any statutory claim, (ii) any amount payable (whether as a direct obligation or indirectly through a guarantee of a liability by such person) pursuant to an agreement or instrument involving or evidencing money borrowed or received, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase or pursuant to a lease with substantially the same economic effect as any such agreement or instrument, (iii) any instrument which is qualified as a liability pursuant to regulations issued by the Central Bank or other Brazilian banking or monetary authorities (to the extent the Central Bank or other such authorities have issued guidance with respect to the accounting treatment of such instrument, and if no such guidance has been issued, then pursuant to CVM regulations), in whole or in part (if in part, only to such extent) and (iv) any other claim of a creditor of us.

As of June 30, 2012 without giving effect to this offering, our Senior Indebtedness and the Pari Passu Liabilities totaled R$103.9 billion and R$4.5 billion, respectively.

Use of Proceeds .... We intend to use the net proceeds of the issuance of the Notes for general corporate purposes. See "Use of Proceeds."

Covenants .... The terms of the Indenture will require us, among other things, to:

- pay all amounts owed by us under the Indenture and the Notes;
- if we defer any principal, interest or other amounts due on the Notes as described under "—Deferral of Principal, Interest and Other Amounts" above, use reasonable efforts to reenter into compliance with the Risk-Based Capital Requirements within 180 days;
- maintain all necessary governmental and third party approvals and consents;
- maintain our books and records;
- maintain an office or agency in New York where Notes may be presented for payment or for exchange, transfer or redemption and where notices and demands may be served;
- give notice to the Trustee of any default or event of default under the Indenture, of a deferral of payment of principal, interest or other amounts due on the Notes and of certain other events;
- replace the Trustee upon any resignation or removal thereof; and
- preserve the our corporate existence, subject to certain consolidation, merger, conveyance and transfer provisions.

In addition, the terms of the Indenture will require us to meet certain conditions before we consolidate, merge or transfer either all or substantially all of our assets and properties or all or substantially all of our assets, properties and liabilities to another person without the consent of the holders of at least 66 2/3% in the aggregate principal amount of the outstanding Notes.

These covenants are subject to a number of important qualifications. See "Description of the Notes—Certain Covenants."

Optional Redemption due to a Tax Event............ Subject to the approval of the Central Bank and any other applicable Brazilian Governmental Authority (if such approval is then required), on any Interest Payment Date, we may redeem the Notes in whole, but not in part, following the occurrence of a Tax Event at the Base Redemption Price. See "Description of the Notes—Optional Redemption—Optional Redemption due to a Tax Event."

Optional Redemption due to a Regulatory Event .... Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), we may redeem the Notes, in whole, but not in part, following the occurrence of a Regulatory Event (as defined below) at the Base Redemption Price. See "Description of the Notes—Optional Redemption—Optional Redemption due to a Regulatory Event."

Events of Default .... The Indenture will contain certain limited events of default, consisting of the following:

- failure to pay principal on the due date thereof, unless the principal payment is deferred as described above in "—Deferral of Principal, Interest and Other Amounts." See "Description of the Notes—Deferral of Principal, Interest and Other Amounts";

- failure to pay interest or any Additional Amounts due on any Note for more than 15 days from the due date thereof unless such payment is deferred as described above in "—Deferral of Principal, Interest and Other Amounts"; and

- certain events involving insolvency, winding up, dissolution or similar changes, as applicable.

Payment of principal of the Notes may be accelerated only in the case of certain events involving our dissolution, winding up or similar events, and we will be required to make payment after acceleration only after we have been dissolved or otherwise wound up for purposes of Brazilian law. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Notes, your remedies will be limited."

There is no right of acceleration in the case of a default in the payment of principal, interest or any other amount on the Notes or the failure by us to perform any other obligation under the Indenture. Notwithstanding the foregoing or any other provision in the Notes and the Indenture, in the event of our failure to pay any principal, interest or any other amount due on the Notes when it becomes due and payable, the Noteholder will have the right to institute a suit, including a summary proceeding for the enforcement of any such payment, subject to certain conditions.

Amendments to the Terms and Conditions of the Notes .... We expect to qualify the Notes as Tier 2 Capital subject to the Central Bank's approval. The Central Bank's approval is still pending and the Central Bank may require us to amend certain terms and conditions of the Notes as a condition to granting such approval. We may one time, without the prior consent of Noteholders, amend the terms and conditions of the Notes solely to comply with the requirements of the Central Bank to qualify

	the Notes as Tier 2 Capital pursuant to CMN Resolution No. 3,444. We will not be permitted to make any amendments without Noteholders' consent if such amendment would affect in any way the interest rate of the Notes, the method of computing the amount of principal or interest or other amounts payable on any date, change any place of payment or coin or currency of payment, the cumulative nature of any interest payment due on Amounts in Arrears, the outstanding principal amount of the Notes, the ranking of the Notes (as described in "—Ranking"), the original Maturity Date of the Notes or other changes requiring approval. Any other amendment to the terms and conditions of the Notes (other than in respect of providing for the issuance of additional Notes or minor amendments required to cure inconsistencies, defects ambiguities and similar matters) is subject to the prior consent of Noteholders as set forth under "Description of the Notes—Modification of the Indenture."
Clearance and Settlement	The Notes were issued in book-entry form through the facilities of The Depository Trust Company, or DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking S.A. Luxembourg, or Clearstream, Luxembourg. See "Description of the Notes—Book-Entry and Transfer."
Withholding Taxes; Additional Amounts	All payments of principal, interest and other amounts due on the Notes will be made without withholding or deducting any taxes, imposed by Brazil or the Cayman Islands or by the jurisdiction of any successor to us in the event of a consolidation, merger, transfer or conveyance, or in the event that we appoint additional paying agents, by the jurisdictions of any paying agents unless such withholding or deduction is required by law. If we are required by law to withhold or deduct any such taxes, we will pay the Noteholders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction, subject to certain exceptions. See "Description of the Notes—Additional Amounts."
Listing..	We have applied to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF.
Transfer Restrictions...	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on resales and transfers described under "Transfer Restrictions."
ERISA Considerations..	Except under the limited circumstances described in "Certain ERISA Considerations" below, the Notes may not be acquired by, on behalf of or with the assets of any employee benefit plan or other plan, account or arrangement subject to Title I of ERISA, Section 4975 of the Code, or any non-U.S. or U.S. federal, state or local laws or regulations substantially similar to the foregoing provisions of ERISA and the Code.
Governing Law	The Indenture, the Notes, the purchase agreement and related

	documents are governed by the laws of the State of New York, except for the subordination provisions thereof and the terms of subordination which are governed by the laws of Brazil.
Form and Denomination	The Notes will initially be issued in the form of one fully registered Restricted Global Note and one fully registered Regulation S Global Note. The Notes were delivered in book-entry form through the facilities of DTC and its direct and indirect participants, including Euroclear and Clearstream. See "Form of the Notes; Book Entry and Transfer." The Notes were issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
Additional Notes	Upon satisfaction of the conditions set forth in the Indenture, we, from time to time, without notice or consent of the Noteholders, may issue additional Notes and the original Notes and any additional Notes will be treated as a single series for all purposes under the Indenture. See "Description of the Notes—Additional Notes."
Trustee, Registrar, Paying Agent and Transfer Agent	Deutsche Bank Trust Company Americas.
Luxembourg Listing Agent	Loyens Loeff.
Luxembourg Paying Agent and Luxembourg Transfer Agent	Deutsche Bank Luxembourg S.A.

SUMMARY FINANCIAL INFORMATION

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

Our balance sheet and income statement data as of and for the years ended December 31, 2009, 2010 and 2011, as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 and our unaudited interim consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012, respectively, which are included elsewhere in this Offering Memorandum. Interim financial results are not necessarily indicative of results that may be expected for the full fiscal year or any future reporting period.

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

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement. See "Presentation of Financial and Other Information—Our Unaudited Adjusted Income Statement."

Solely for the convenience of the reader, we have converted certain amounts from *reais* into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$2.0207 to US$1.00, which was the exchange rate in effect as of June 30, 2012, as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rate may fluctuate widely, and the exchange rate as of June 30, 2012 may not be indicative of future exchange rates. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

Selected Balance Sheet
(Unaudited for June 30, 2012)

	As of December 31,			As of June 30,	
	2009	2010	2011	2012	2012
		(in R$ millions)			(in US$ millions)
Assets					
Cash at banks	62.6	1,522.8	517.3	311.5	154.2
Short-term interbank investments	11,145.1	25,209.3	19,583.0	26,875.6	13,300.1
Securities and derivative financial instruments	5,656.8	36,061.8	42,893.9	65,408.3	32,369.1
Interbank transactions	25.6	134.1	876.7	917.7	454.1
Loans	1,371.2	3,701.7	4,665.1	5,186.6	2,566.7
Other receivables					
Securities trading and brokerage	1,022.6	1,989.5	4,403.8	7,181.5	3,554.0
Other receivables	2,584.4	3,852.0	7,641.7	8,749.4	4,329.9
Other assets	2.0	42.5	25.1	21.5	10.6
Permanent assets	56.4	393.2	1,405.3	2,881.4	1,425.9
Total assets	**21,926.7**	**72,906.9**	**82,012.0**	**117,533.9**	**58,164.9**

	As of December 31,			As of June 30,	
	2009	2010	2011	2012	2012
		(in R$ millions)			(in US$ millions)
Liabilities and Shareholders' equity					
Deposits	5,522.7	10,573.5	14,211.1	16,371.5	8,101.9
Open market funding	9,056.6	41,188.9	39,061.0	57,279.7	28,346.5
Funds from securities issued and accepted	330.2	1,305.5	3,774.6	5,012.1	2,480.4
Interbank transactions	–	–	–	33.2	16.4
Loans and onlending	61.3	155.3	919.7	1,407.3	696.4
Derivative financial instruments	936.2	2,165.7	2,953.8	7,235.0	3,580.4
Other liabilities					
Securities trading and brokerage	1,233.3	9,542.6	7,930.0	11,214.8	5,550.0
Subordinated debts	–	–	4,158.3	4,486.3	2,220.2
Other liabilities	1,533.5	2,348.5	2,419.9	5,394.0	2,669.4
Deferred income	8.4	24.3	31.5	55.0	27.2
Non-controlling interest	–	–	212.2	91.0	45.0
Shareholders' equity	3,244.5	5,602.6	6,339.8	8,953.5	4,430.9
Total liabilities and shareholders' equity	**21,926.7**	**72,906.9**	**82,012.0**	**117,533.9**	**58,164.9**

Income Statement
(Unaudited for June 30, 2012 and 2011)

	For the year ended December 31,			For the six months ended June 30,		
	2009	2010	2011	2011	2012	2012
	(in R$ millions)					(in US$ millions)
Financial income	**1,996.4**	**3,510.1**	**5,836.1**	**2,718.6**	**4,357.7**	**2,156.5**
Loans	190.5	327.2	945.6	275.7	613.2	303.5
Marketable securities	1,696.8	2,698.3	4,589.1	2,181.2	3,428.4	1,696.6
Derivative financial instruments	(34.5)	415.8	11.0	220.0	152.3	75.4
Foreign exchange	143.6	68.8	249.3	41.7	122.6	60.7
Mandatory investments	–	–	41.1	–	41.2	20.4
Financial expenses	**(1,479.9)**	**(2,428.5)**	**(4,549.6)**	**(2,032.3)**	**(2,916.6)**	**(1,443.4)**
Funding operations	(1,071.2)	(2,458.9)	(4,002.0)	(2,023.9)	(2,402.8)	(1,189.1)
Borrowings and onlending	(155.2)	37.4	(517.6)	4.2	(279.5)	(138.3)
Allowance for loan losses and other receivables	(253.5)	(7.0)	(30.0)	(12.6)	(234.3)	(115.9)
Gross financial income	**516.5**	**1,081.6**	**1,286.5**	**686.3**	**1,441.1**	**713.2**
Other operating income (expenses)	**869.4**	**340.7**	**388.4**	**241.0**	**392.3**	**194.1**
Income from services rendered	671.2	803.0	1,107.6	498.1	761.9	377.0
Personnel expenses	(181.0)	(227.7)	(359.7)	(125.8)	(188.7)	(93.4)
Other administrative expenses	(159.3)	(255.2)	(355.5)	(137.2)	(291.1)	(144.1)
Tax charges	(127.6)	(188.3)	(286.0)	(119.6)	(170.9)	(84.6)
Equity in the earnings of associates	–	–	(3.5)	28.8	268.4	132.8
Other operating income	702.4	238.7	372.1	128.4	212.9	105.4
Other operating expenses	(36.3)	(29.8)	(86.6)	(31.8)	(200.2)	(99.1)
Operating income	**1,385.9**	**1,422.3**	**1,674.9**	**927.3**	**1,833.4**	**907.3**
Non-operating income	8.0	(0.4)	9.2	9.2	–	–
Income before taxation and profit sharing	**1,393.9**	**1,421.9**	**1,684.1**	**936.5**	**1,833.4**	**907.3**
Income tax and social contribution	**(477.4)**	**(381.6)**	**199.2**	**(292.3)**	**(296.9)**	**(146.9)**
Provision for income tax	(39.7)	(69.2)	(116.6)	(111.7)	(202.7)	(100.3)
Provision for social contribution	(23.1)	(39.7)	(54.6)	(61.9)	(119.1)	(58.9)
Deferred tax assets	(414.6)	(272.7)	370.4	(118.7)	25.0	12.4
Statutory profit sharing	**(287.2)**	**(229.4)**	**(401.2)**	**(198.4)**	**(590.2)**	**(292.1)**
Non-controlling interest	–	–	(5.0)	–	(1.0)	(0.5)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**	**467.9**

Adjusted Income Statement (Unaudited)

	For the year ended December 31,			For the six months ended June 30,		
	2009	2010	2011	2011	2012	2012
	(in R$ millions)					(in US$ millions)
Investment banking	215.8	344.0	338.3	198.7	178.8	88.5
Corporate lending	63.2	251.1	366.5	187.8	241.6	119.6
Sales and trading	560.8	637.8	999.9	345.8	895.9	443.4
Asset management	295.7	298.4	443.2	160.7	349.1	172.8
Wealth management	49.7	103.5	144.5	69.2	72.3	35.8
PanAmericano	–	–	(52.0)	24.1	(118.8)	(58.8)
Principal investments	24.0	201.6	(111.2)	13.4	689.1	341.0
Interest and other	(9.2)	147.4	518.1	240.9	267.3	132.3
Total revenues	**1,200.0**	**1,983.8**	**2,647.1**	**1,240.5**	**2,575.3**	**1.274.5**
Bonus	(242.4)	(232.0)	(479.6)	(199.4)	(612.4)	(303.1)
Retention expenses	548.4	(53.3)	(32.5)	(26.8)	(5.9)	(2.9)
Salaries and benefits	(165.1)	(159.9)	(213.2)	(89.5)	(144.5)	(71.5)
Administrative and others	(116.0)	(207.9)	(293.2)	(123.1)	(216.2)	(107.0)
Goodwill amortization	–	(8.4)	(31.2)	(16.8)	(175.4)	(86.8)
Tax charges, other than income tax	(110.6)	(129.5)	(177.0)	(82.7)	(108.1)	(53.5)
Total operating expenses	**(85.7)**	**(791.0)**	**(1,226.7)**	**(538.3)**	**(1,262.5)**	**(624.8)**
Income before taxes	**1,114.3**	**1,192.8**	**1,420.5**	**702.1**	**1,312.8**	**649.7**
Income tax and social contribution revenue (expense)	(485.0)	(381.9)	56.6	(256.3)	(367.4)	(181.8)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**	**467.9**

RISK FACTORS

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

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

Risks Relating to Our Business and Industry

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

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

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

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

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

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

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

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

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

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

Financial instruments and securities represent a significant amount of our total assets. Any realized or unrealized future gains or losses from these investments or hedging strategies could have a significant impact on our income. These gains and losses, which we account for when we sell or mark-to-market investments in financial instruments, can vary considerably from one period to another. For example, we enter into derivatives transactions to protect us against decreases in the value of the *real* (or any other currency) or in interest rates and the *real* (or any other currency) instead increases in value or interest rates increase, we may incur financial losses. We cannot forecast the amount of gains or losses in any future period, and the variations experienced from one period to another, do not necessarily provide a meaningful forward-looking reference point. Gains or losses in our investment portfolio may create volatility in net revenue levels, and we may not earn a return on our consolidated investment portfolio, or on a part of the portfolio in the future. Any losses on our securities and derivative financial instruments could adversely affect us. In addition, any decrease in the value of these securities and derivatives portfolios may result in a decrease in our capital ratios, which could impair our ability to engage in certain activities, such as lending or securities trading, at the levels we currently anticipate, and may also adversely affect our ability to continue to pursue our growth strategies.

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

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

Our investment banking revenues in the form of financial advisory and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn – even if the market downturn was primarily outside of Brazil. In particular, our results of operations would be adversely affected by a significant reduction in the number or size of offerings which we underwrite.

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

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

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

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

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

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

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

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

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

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

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

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

The global financial markets deteriorated sharply beginning in the second half of 2008, resulting in a credit and liquidity crisis that began to ease following the second quarter of 2009. A number of major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced significant difficulties. In particular, banks in many markets faced decreased liquidity or a complete lack of liquidity, rapid deterioration of financial assets on their balance sheets and resulting decreases in their capital ratios that severely constricted their ability to engage in further lending activity. We routinely transact with such institutions as trading counterparties in various agreements and contracts in the financial services industry, as well as brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. If significant financial counterparties continue to experience liquidity problems or the financial services industry in general is unable to fully recover from the effects of the crisis, it could have an adverse effect on us.

In addition, the financial condition of our borrowers has, in some instances, been adversely affected by the financial and economic crisis, which has in turn increased our non-performing loans, impaired our loans and other financial assets and resulted in decreased demand for borrowings in general. In addition, some of our counterparties may also suffer losses as a result of the debt crisis in Europe. Additional disruption and volatility in the global financial markets could have further negative effects on the financial and economic environment. In addition, a prolonged economic downturn would result in a general reduction in business activity and a consequent loss of income. Any such ongoing disruption or reduction in business activity could have an adverse effect on us.

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

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

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

A significant portion of our business is conducted in Brazil, where the Central Bank's Monetary Policy Committee (*Comitê de Política Monetária*), or COPOM, establishes the target base interest rate for the Brazilian banking system, and uses changes in this rate as an instrument of monetary policy. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the

Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC. In recent years, the base interest rate, or the SELIC rate, has fluctuated, reaching approximately 45% per annum in March 1999 and falling to 15.25% per annum in January 2001. Since 2001, the Central Bank has frequently adjusted the SELIC rate, with several increases made in response to economic uncertainties. In 2006, the Central Bank started reducing the SELIC rate, which reached 11.25% as of December 31, 2007. Largely in response to accelerating economic activity, the COPOM began raising the target SELIC rate again and in September 2008, the SELIC rate was 13.75%. However, as a response to the 2008 global financial crisis, the COPOM lowered the target SELIC rate in 2009 and, as of December 31, 2009, the SELIC rate was 8.75%. Following the improvement in economic conditions in Brazil in 2010, the COPOM increased the target SELIC rate and, as of December 31, 2010, the SELIC rate was 10.75%. In 2011, the COPOM continued to increase the SELIC rate, which reached 11.0% as of December 31, 2011. As of June 30, 2012, the SELIC rate was 8.5%, which rate decreased to 7.5% on August 29, 2012.

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

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

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

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

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

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

In addition, we could be adversely affected if we fail to successfully integrate the operations of our acquired companies without existing operations and thus do not realize the benefits we hope to achieve from the integration of our acquisitions. For example, in the case of Celfin and Bolsa y Renta, the success of such acquisition will depend, among other factors, on our ability to retain their respective existing senior and middle management teams and to successfully expand their respective current business lines to include the full range of financial services and products that we currently offer in Brazil. As a result, we may fail to successfully integrate either or both of Celfin's and Bolsa y Renta's operations with our operations or achieve the expected cost savings and revenue generation arising from such integration in the time frame we anticipate or at all. Generally, our inability to realize the benefit of any acquisition may be due to a variety of factors, including our inability to implement our firm's culture at the companies we acquire, to integrate our respective back office operations with those of the companies we acquire, or to carry out anticipated headcount reductions. It is possible that any acquisition could result in the loss of key employees, the disruption of either our or any target's ongoing business and inconsistencies in standards, controls, procedures and policies. Moreover, the success of any acquisition will at least in part be subject to a number of economic and other factors that are beyond our control.

The definitive agreements relating to the acquisitions of Celfin and Bolsa y Renta include several closing conditions that the parties may be unable to satisfy, including the receipt of all required regulatory approvals. Accordingly, there can be no assurance that these pending transactions will be completed.

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

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

The financial services industry is intensely competitive.

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

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

We face increased competition due to a trend toward consolidation.

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

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

Our market and credit risk management techniques and strategies, including our use of Value at Risk, or VaR, and other statistical modeling tools, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate. Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential clients believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

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

Past performance may not be indicative of our future results.

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

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

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

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

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

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

In addition, we depend on inter-bank deposits as a principal source of unsecured short-term funding for our operations. As of June 30, 2012, we had R$823.7 million of indebtedness related to inter-bank deposits. Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Banks that hold inter-bank deposits with us have no obligation to renew these inter-banks deposits when the outstanding deposits mature. If we are unable to refinance these short-term borrowings, we will be adversely affected.

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

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

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

We may suffer significant losses from our credit exposures.

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

In recent years, we have significantly expanded our swaps and other derivatives businesses and placed a greater emphasis on providing credit and liquidity to our clients. Additionally, as part of our brokerage business, we finance our client positions, and we could be held responsible for the defaults or misconduct of our clients. We are also experiencing pressure from corporate clients that require credit commitments in connection with investment banking and other assignments. As a result, our credit exposures have increased in both amount and duration. The outstanding balance of our broader credit portfolio, which consists mainly of loans, receivables, advances in foreign exchange contracts, marketable securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), increased from an average balance of R$2.1 billion in 2009 to an average balance of R$20.4 billion in the six months ended June 30, 2012. In addition, as competition in the financial services industry has increased, we have experienced pressure to assume longer-term credit risk, extend credit against less liquid collateral and price more aggressively the credit risks that we take.

The ability of borrowers to meet their obligations on schedule is directly related to their operational and financial performance. An economic crisis such as the world financial crisis in 2008 and the European sovereign debt crisis in 2010 and 2011, or low economic performance, may also increase the number of defaulting borrowers. The increase in the number of defaulting borrowers within our credit portfolio may increase the losses resulting from loans and adversely affect us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Central Bank also must approve certain acts by Brazilian financial institutions. As of the date of this Offering Memorandum, we are still awaiting the Central Bank's approval with respect to the following matters: (i) the acquisitions of Celfin and Bolsa y Renta; (ii) the election of certain members of our board of directors; and (iii) our opening of branches in the cities of Curitiba and Ribeirão Preto in Brazil.

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

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

There have been a number of highly publicized cases involving fraud or other misconduct by individuals involved in the financial services industry in recent years and we run the risk that such misconduct could occur and harm our business. Misconduct by individuals working for us could occur in the future. For example, these risks could include binding us to transactions that exceed authorized limits or present unacceptable risks, or hiding from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. These risks could also include unauthorized breaches of the existing regulatory, tax and administrative procedures and processes or of the additional procedures and processes which we will implement for the purpose of addressing the standards and requirements applicable to public companies. Such misconduct could also involve the improper use or disclosure of confidential information, which could result in sanctions and serious reputational or financial harm. Any breach of our clients' confidences as a result of such misconduct may impair our ability to attract and retain clients. It is not always possible to deter such misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases.

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

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

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

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

Prior to the announcement of the transaction, Banco PanAmericano disclosed a series of accounting inconsistencies which resulted in losses of approximately R$4.3 billion. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity in the earnings of associates. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2011. We recorded losses of R$27.2 million and R$79.1 million in connection with the Banco PanAmericano equity pick-up for 2011 and the six months ended June 30, 2012, respectively. There can be no assurance that Banco PanAmericano will not generate net losses during 2012 or thereafter or that Banco PanAmericano's accumulated loss adjustments will not continue to adversely affect our results of operations relating to our commercial banking activities.

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

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

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

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

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

Risk Factors Relating to Brazil

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

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

- banking regulations;
- growth or downturn of the Brazilian economy;
- the regulatory environment;
- inflation;
- interest rates;
- variations in exchange rates;
- decreases in wages and economic levels;
- increases in unemployment;
- exchange control policies;
- fiscal policy and changes in the tax law;

- liquidity of the domestic financial, capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

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

Exchange rate instability may adversely affect us.

The Brazilian currency has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. The *real* appreciated against the U.S. dollar by 20.5% in 2007. In 2008, as a result of the global financial crisis, the *real* depreciated against the U.S. dollar by 24.2%. However, in 2009 and 2010, the *real* appreciated by 33.8% and 3.5%, respectively, against the U.S. dollar. In 2011, the *real* depreciated by 12% against the U.S. dollar. The *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2011 was R$1.8758 per U.S. dollar, and on June 30, 2012, it was R$2.02 per U.S. dollar. We cannot assure you that the *real* will not continue to appreciate substantially or depreciate against the U.S. dollar in the future. Our costs are principally denominated in *reais*. However, because a substantial portion of our revenues is denominated in U.S. dollars, whereas our reporting currency is the *real*, we may be adversely affected due to fluctuations in the value of the *real* against the U.S. dollar. For example, changes in the relative value of the *real* and the U.S. dollar will result in realized and unrealized foreign exchange gains and losses to the extent that we have assets and liabilities denominated in U.S. dollars or these other currencies. Further, the depreciation of the *real* against the U.S. dollar may create additional inflationary pressures in Brazil, which may negatively affect the Brazilian economy as a whole and cause an adverse effect on us.

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

Brazil has historically experienced high rates of inflation. Inflation and certain actions taken by the Brazilian government to curb it have had negative effects on the Brazilian economy, especially in the period before 1995. Inflation, as measured by the IGP-M, reached 2.57% in 1993. Although Brazilian inflation has substantially decreased since 1994, inflationary pressures still persist. Brazil's inflation rate in 2007 and 2008 reached 7.75% and 9.81%, respectively, but, in 2009, Brazil experienced a deflation rate of 1.72% due to the effects of the financial global crisis in the end of 2008. In 2010 and in 2011, inflation rates in Brazil were 11.32% and 5.10%, respectively, as a result of the economic growth momentum of the Brazilian economy. For the six months ended June 30, 2012, the inflation rate in Brazil was 3.19%.

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

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

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

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

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

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

Risk Factors Relating to the Regulatory Environment

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

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

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

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

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

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

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

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

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

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

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

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders summit in November 2010. The Basel III recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth. The Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirements to 7%. The implementation of Basel III in Brazil is expected to follow the agreed international schedule, by implementing the capital and other requirements gradually between January 1, 2013 and January 1, 2019.

On January 13, 2011, the Committee expanded the capital rules under Basel III, resulting in additional requirements for Tier 1 or Tier 2 non-voting debt instruments issued by banks operating in international financial markets. These additional requirements would apply to any instrument issued after January 1, 2013, and instruments issued prior to such date would be phased out over a period of ten years, starting in 2013. On February 17, 2011, the Central Bank issued Communication No. 20,615 affirming its intention to implement these new requirements, and, according to a non-binding schedule set forth in Communication No. 20,615, the Central Bank will issue further rulings in the future with respect to such requirements.

In addition, on February 17, 2012, the Central Bank released Public Hearing No. 40/2012 for comments, which proposes modifications to the definition of reference capital applicable to Brazilian financial institutions currently established by CMN Resolution No. 3,444. According to Public Hearing No. 40/2012, the Central Bank now intends to consider certain additional entities controlled by a financial institution in making reference capital determinations. Under the current proposal, entities resembling financial institutions (such as credit card management companies) and investment funds from which a financial institution retains substantial risks and benefits would initially be included when determining the reference capital of the parent financial institution. We cannot predict if, when and to what extent such rules will become effective.

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

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

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

We hold ourselves out as a diversified financial services firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities, a key element in the definition of an investment company under the Investment Company Act. However, there is a risk that some of our equity investment activities, especially if viewed in isolation from our other activities and our related companies, potentially could be considered those of an investment company or fund subject to regulation under the Investment Company Act. As a result, we have elected to take steps to ensure compliance under such laws even were our activities viewed in that light in part by limiting the persons and entities that may acquire units. The Notes were offered pursuant to an exclusion from the definition of investment company as the Notes were offered and sold in the United States only to prospective investors that are "qualified purchasers" within the meaning given to such term in the Investment Company Act, and outside the United States only in accordance with Rule 903 under the Securities Act. See "Transfer Restrictions."
The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business.

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

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

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

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

Risk Factors Relating to the Notes

We are one of the Initial Purchasers, and, in such capacity, we will participate in the bookbuilding process, which may lead to distortions in the setting of the material terms of the Notes.

Banco BTG Pactual, the issuer of the Notes, is also acting as an Initial Purchaser in this offering. In its capacity as Initial Purchaser, Banco BTG Pactual will participate in the setting of the issue price, interest rate and other material terms of the Notes, together with the other Initial Purchasers. This participation in the bookbuilding process may cause distortions in such terms of the Notes or reduce the liquidity of the Notes in the secondary market.

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

André Santos Esteves, our controlling shareholder (i) owns, directly and indirectly, approximately 22.20% of our capital stock and (ii) controls, directly or indirectly, approximately 84.35% of our common shares which, subject only to certain limited exceptions (see "Our Partnership—Shareholders Agreements—Partners Brazil Shareholders Agreement"), will allow Mr. Esteves, in his sole discretion, to control our management, direction and policies, including the outcome of any matter submitted to a vote of shareholders. As a result, subject to certain exceptions, Mr. Esteves is and will be able to (i) elect and control the decisions of the majority of our board of directors, (ii) control our management and policies, and (iii) determine without the consent of unit holders the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including mergers, amalgamations, consolidations and the sale of all or substantially all of our assets. As the controlling shareholder of the BTG Pactual Group, Mr. Esteves will also be able to prevent or cause a change in control of the BTG Pactual Group. The interests of our controlling shareholder may not coincide with yours as a holder of the Notes. For example, our controlling shareholder may have an interest in undertaking expansions, acquisitions, divestitures, financings and other actions that, in his judgment, could enhance his equity investments, even though those actions might involve risks to you as a holder of the Notes.

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

We expect to qualify the Notes as Tier 2 Capital subject to the Central Bank's approval. The Central Bank's approval is still pending and the Central Bank may require us to amend certain terms and conditions of the Notes as a condition to granting such approval. We may one time, without the prior consent of Noteholders, amend the terms and conditions of the Notes solely to comply with the requirements of the Central Bank to qualify the Notes as Tier 2 Capital pursuant to Resolution 3,444. We will not be permitted to make any amendments without Noteholders' consent if such amendment would affect in any way the interest rate of the Notes, the cumulative nature of any interest payment due on amounts in arrears, the outstanding principal amount of the Notes, the ranking of the Notes (as described in "Description of the Notes—Ranking") or the original maturity date of the Notes. Any amendment to the Notes may adversely impact your rights as a Noteholder and may adversely impact the market value of the Notes.

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

Any rating assigned to the Notes reflects the rating agency's assessment of our ability to make timely payment of interest on each payment date. Any rating assigned to the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure the investors that any rating assigned to the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in the rating of the Notes will not be an event of default under the Indenture. The assigned rating may be raised or lowered depending, among other factors, on the rating agency's assessment of our financial strength.

The absence of a public market for the Notes may affect the Noteholders' ability to sell the Notes in the future and may affect the price the Noteholders would receive if such sale were to occur.

The Notes are new securities for which there is currently no established market, and, although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for them to be admitted to trading on the Euro MTF, there is no assurance that a market for the Notes will develop. In addition, we may delist the Notes from the Euro MTF if the provisions of the Transparency Directive or otherwise require us to publish financial information either more regularly than we would otherwise be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information. Accordingly, we cannot give any assurance as to the development or liquidity of any market for the Notes.

The liquidity of, and trading market for, the Notes may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance. The holders of the Notes may not be able to sell their Notes at a particular time, and the price that such Noteholders receive at the time of sale may not be favorable.

In addition, due to certain transfer restrictions applicable to the Notes, you may be required to bear the risk of your investment for an indefinite period of time. For a discussion of certain restrictions on resale and transfer, see "Transfer Restrictions."

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

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

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

- restrict companies, including financial institutions, such as us, from paying amounts denominated in foreign currencies (such as payments under the Notes); or

- require that any of those payments be made in *reais*.

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

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

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

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

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

We may not be able to obtain necessary governmental authorizations.

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

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

Our obligations under the Notes are subordinated to our senior liabilities, and to some Brazilian statutory obligations.

The Notes are, by their terms unsecured, deeply subordinated obligations and rank behind claims of our depositors, other unsubordinated and subordinated creditors, and rank pari passu with our other instruments that qualify as Tier 2 Capital and Tier 1 Capital and rank in priority only to our most senior preferred stock and common stock. The Indenture does not contain any restrictions on our ability to incur additional indebtedness that is senior or *pari passu* to the Notes. The issuance of any such instruments may reduce the amount recoverable by Noteholders upon any bankruptcy or insolvency and would increase the likelihood that we may suspend the payment of interest on the Notes.

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

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

Pursuant to Resolution 3,444, as a condition for the subordinated debt represented by the Notes to qualify as Tier 2 Capital, the Indenture provides that any principal and interest payments to be made by us under the Notes on the corresponding payment dates and maturity date shall be deferred if we are not in compliance with operational limits required by regulations applicable to Brazilian banks, and if such payments would cause us to no longer be in compliance with such risk-based capital requirements as in effect from time to time. In such a case, all payments falling due under the Notes would be deferred until we are, and if such payment would not cause us to fail to be, in compliance with the risk-based capital requirements. See "Regulatory Overview—The Brazilian Financial System and Banking Regulation—Banking Regulation—Principal Limitations and Restrictions on Financial Institutions—Capital Adequacy and Leverage." See "Description of the Notes—Deferral of Principal, Interest and Other Amounts" for more information on the deferral of payments under the Notes. Our failure to satisfy the risk-based capital requirements could prevent us from making interest and/or principal payments under the Notes and could adversely affect their market value.

Applicable Brazilian regulations do not expressly provide for different levels of subordination in the event of bankruptcy, liquidation or dissolution.

The Notes, which we expect to qualify as Tier 2 Capital subject to Central Bank approval, are our subordinated obligations, junior in right of payment upon our bankruptcy, liquidation or dissolution to our senior indebtedness. However, applicable Brazilian regulations do not contain any express provision stating that Tier 2 subordinated capital is senior to Tier 1 subordinated capital or that obligations constituting subordinated capital may rank senior to other obligations that also constitute subordinated capital.

We may in the future create subordination provisions in new issuances of subordinated debt (including those that we may intend to qualify as Tier 1 subordinated capital) that provide that upon our bankruptcy, liquidation or dissolution, those securities are contractually subordinated to both our senior debt and all claims of our creditors whose claims are subordinated only to the claims of our unsubordinated creditors, such as the Notes. Although the Brazilian bankruptcy law recognizes the principle of contractual subordination of claims, there is a lack of court precedent in Brazil that validates or upholds this principle. At present, the Brazilian bankruptcy law also does not expressly provide for different levels of subordination.

Accordingly, in the event of our bankruptcy, liquidation or dissolution, we cannot assure you that Brazilian bankruptcy courts would recognize and properly enforce the contractual subordination to the Notes of any such subordinated obligations that we may create in future.

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

Payment of principal of the Notes may be accelerated only upon the occurrence of certain events involving our bankruptcy, extrajudicial liquidation, winding up or dissolution or similar events. There is no right of acceleration in the case of a default in the payment of principal of or interest or any other amount on the Notes or the failure by the Issuer to perform any other obligation under the Indenture.

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

- all of our senior obligations have been paid in full, as described above in "—Our obligations under the Notes will be subordinated to certain statutory liabilities"; and

- we are actually declared bankrupt, are liquidated, wound up or are otherwise dissolved for purposes of Brazilian law.

If, after these conditions are met, we make any payment from Brazil, we may be required to obtain the approval of the Central Bank for the remittance of funds outside Brazil. See "—If we are unable to make payments on the Notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining or be unable to obtain the necessary Central Bank approvals, which would delay or prevent us from making payments on the Notes."

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

Except under the limited circumstances described in "Certain ERISA Considerations" below, the Notes may not be acquired by, on behalf of or with the assets of any employee benefit plan or other plan, account or arrangement subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or any non-U.S. or U.S. federal, state or local laws or regulations substantially similar to the foregoing provisions of ERISA and the Code ("Similar Law"). See "Certain ERISA Considerations."

The U.S. federal income tax characterization of the Notes is uncertain.

As a result of certain features of the Notes, the U.S. federal income tax characterization of the Notes is uncertain, and there is a substantial risk that the Notes may be characterized as equity. Different characterizations may result in differences in the timing, character and amount of income recognized, as well as result in other U.S. federal income tax consequences. For a more complete discussion, see "Taxation – Certain United States Federal Income Tax Consequences."

In certain circumstances a portion of payments made on or with respect to the Notes may be subject to U.S. reporting obligations which, if not satisfied, may require U.S. tax to be withheld.

The United States has passed legislation (commonly referred to as FATCA) that will impose new information reporting requirements with respect to certain holders of "financial accounts," as such term is defined in the FATCA rules. The Issuer may become subject to U.S. withholding tax on payments on or with respect to certain of its assets unless it enters into an agreement with the U.S. Internal Revenue Service to, among other items, provide information reports regarding its direct and indirect U.S. customers and investors. If the Issuer enters into such an agreement, under certain circumstances, starting in 2017, U.S. withholding tax may be imposed on a portion of any payments received by non-U.S. investors with respect to the Notes. Prospective investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

USE OF PROCEEDS

The net proceeds from the offering of the Notes are estimated to be approximately US$779.9 million, after deducting the Initial Purchasers' discounts and commissions and estimated offering expenses. We intend to use the net proceeds from the offering of the Notes for general corporate purposes.

CAPITALIZATION

The table below presents our capitalization as of June 30, 2012 and, as adjusted, to reflect US$779.9 million in net proceeds from the offering of the Notes, after giving effect to this offering. The adjusted amounts do not reflect the issuance of senior notes denominated in Colombian pesos under the Programme in September, 2012, in the amount of US$200 million (equivalent in Colombian pesos). The information described below is derived from our unaudited interim consolidated financial statements as of June 30, 2012.

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

(Unaudited)	**As of June 30, 2012**			
	Actual		**As Adjusted(1)**	
	(in R$ millions)	**(in US$ millions)(2)**	**(in R$ millions)**	**(in US$ millions)(2)**
Current liabilities				
Deposits	13,903.2	6,880.4	13,903.2	6,880.4
Open market funding	57,061.4	28,238.4	57,061.4	28,238.4
Funds from securities issued and accepted	2,138.0	1,058.0	2,138.0	1,058.0
Interbank transactions	33.2	16.4	33.2	16.4
Loans and onlending	1,397.9	691.8	1,397.9	691.8
Derivative financial instruments	6,659.6	3,295.7	6,659.6	3,295.7
Other liabilities	15,166.0	7,505.3	15,166.0	7,505.3
Total current liabilities	**96,359.8**	**47,686.3**	**96,359.8**	**47,686.3**
Long-term liabilities				
Deposits	2,468.2	1,221.5	2,468.2	1,221.5
Open market funding	218.2	108.0	218.2	108.0
Funds from securities issued and accepted	2,874.0	1,422.3	2,874.0	1,422.3
Loans and onlending	9.3	4.6	9.3	4.6
Derivative financial instruments	575.3	284.7	575.3	284.7
Other liabilities	5,929.2	2,934.2	7,515.7	3,719.5
Total long-term liabilities	**12,074.4**	**5,975.4**	13,660.9	6,760.5
Deferred income	**55.0**	**27.2**	**55.0**	**27.2**
Non-controlling interest	**91.0**	**45.0**	**91.0**	**45.0**
Shareholders' equity	**8,953.5**	**4,430.9**	**8,943.0**	**4,425.7**
Total capitalization(3)	**117,533.9**	**58,164.9**	**119,109.8**	**58,944.8**

(1) Adjusted to reflect (i) an increase of US$785.1 million of "Other liabilities" (or R$1,586.4 million) from the proceeds from this offering, after deducting the Initial Purchasers' discounts and (ii) a decrease of US$5.2 million of "Shareholders' equity" (or R$10.5 million) from the estimated offering expenses and Initial Purchasers' commissions. The amounts expressed in *reais* were translated for convenience only using the exchange rate as reported by the Central Bank on June 30, 2012 for *reais* into U.S. dollars of R$2.0207 to U.S.$1.00.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank on June 30, 2012 for *reais* into U.S. dollars of R$2.0207 to U.S.$1.00.

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

EXCHANGE RATES

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

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

On March 4, 2005, the CMN unified the commercial market and the floating market through the enactment of Resolution No. 3,265, effective March 14, 2005, which was succeeded by CMN Resolution No. 3.568, enacted on May 29, 2008, thereby producing a single exchange market in place of the previous two. The unified exchange market is intended to simplify both inbound and outbound foreign exchange transactions by permitting exchange contracts to be executed by those local institutions that are authorized to deal in foreign exchange.

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

The main aspects of the abovementioned rules are the following:

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

Exchange rates for the *real* can be highly volatile. The *real* appreciated throughout 2007 from R$2.14 per US$1.00 on December 31, 2006 to R$1.77 per US$1.00 on December 31, 2007. In 2008, mainly as a result of the negative impact of the global financial crisis on the Brazilian economy, the *real* depreciated significantly against the U.S. dollar. The *real*/U.S. exchange rate on December 31, 2008 was R$2.34 per US$1.00, a 24.2% depreciation in relation to the December 31, 2007 rate. In 2009, the *real* stabilized and then commenced appreciating against the U.S. dollar and, as of December 31, 2009, the *real*/U.S. dollar exchange rate was R$1.74 per US$1.00, representing an appreciation of 33.8%. In 2010, the *real* fluctuated against the U.S. dollar and, as of December 31, 2010, the *real*/U.S. dollar exchange rate was R$1.67 per US$1.00, an appreciation of 3.5% compared to December 31, 2009. In 2011, the *real* continued to fluctuate against the U.S. dollar and, as of December 31, 2011, the *real*/U.S. dollar exchange rate was R$1.88 per US$1.00. As of June 30, 2012, the exchange rate for the *real* against the U.S. dollars was R$2.02 per US$1.00, and as of September 21, 2012, such exchange rate was R$2.02 per US$1.00.

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

	Closing Selling Rates of R$ per US$1.00			
Year ended	**Low**	**High**	**Average[(1)]**	**Period end**
December 31, 2007	1.73	2.16	1.95	1.77
December 31, 2008	1.56	2.50	1.84	2.34
December 31, 2009	1.70	2.42	1.99	1.74
December 31, 2010	1.66	1.88	1.76	1.67
December 31, 2011	1.78	1.88	1.84	1.88
Month ended	**Low**	**High**	**Average[(2)]**	**Period end**
January 2012	1.74	1.87	1.79	1.74
February 2012	1.70	1.79	1.72	1.71
March 2012	1.72	1.83	1.80	1.82
April 2012	1.83	1.89	1.86	1.89
May 2012	1.92	2.08	1.99	2.02
June 2012	2.02	2.09	2.05	2.02
July 2012	1.99	2.05	2.03	2.05
August 2012	2.02	2.05	2.03	2.04
September 2012 (through September 21, 2012)	2.01	2.04	2.03	2.02

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

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

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

SELECTED FINANCIAL AND OPERATING INFORMATION

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

Our balance sheet and income statement data as of and for the years ended December 31, 2009, 2010 and 2011, as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 and our unaudited interim consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012, respectively, which are included elsewhere in this Offering Memorandum. Interim financial results are not necessarily indicative of results that may be expected for the full fiscal year or any future reporting period.

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

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the six months ended June 30, 2011 and 2012 and the years ended December 31, 2009, 2010 and 2011 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the six months ended June 30, 2011 and 2012 and the years ended December 31, 2009, 2010 and 2011. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement, as further described below. See "Presentation of Financial and Other Information—Our Unaudited Adjusted Income Statement."

Solely for the convenience of the reader, we have converted certain amounts from *reais* into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$2.0207 to US$1.00, which was the exchange rate in effect as of June 30, 2012, as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rate may fluctuate widely, and the exchange rate as of June 30, 2012 may not be indicative of future exchange rates. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

Selected Balance Sheet
(Unaudited for June 30, 2012)

	As of December 31,			As of June 30,	
	2009	2010	2011	2012	2012
	(in R$ millions)				(in US$ millions)
Assets					
Cash at banks	62.6	1,522.8	517.3	311.5	154.2
Short-term interbank investments	11,145.1	25,209.3	19,583.0	26,875.6	13,300.1
Securities and derivative financial instruments	5,656.8	36,061.8	42,893.9	65,408.3	32,369.1
Interbank transactions	25.6	134.1	876.7	917.7	454.1
Loans	1,371.2	3,701.7	4,665.1	5,186.6	2,566.7
Other receivables					
Securities trading and brokerage	1,022.6	1,989.5	4,403.8	7,181.5	3,554.0
Other receivables	2,584.4	3,852.0	7,641.7	8,749.4	4,329.9
Other assets	2.0	42.5	25.1	21.5	10.6
Permanent assets	56.4	393.2	1,405.3	2,881.4	1,425.9
Total assets	**21,926.7**	**72,906.9**	**82,012.0**	**117,533.9**	**58,164.9**

	As of December 31,			As of June 30,	
	2009	2010	2011	2012	2012
	(in R$ millions)				(in US$ millions)
Liabilities and Shareholders' equity					
Deposits	5,522.7	10,573.5	14,211.1	16,371.5	8,101.9
Open market funding	9,056.6	41,188.9	39,061.0	57,279.7	28,346.5
Funds from securities issued and accepted	330.2	1,305.5	3,774.6	5,012.1	2,480.4
Interbank transactions	–	–	–	33.2	16.4
Loans and onlending	61.3	155.3	919.7	1,407.3	696.4
Derivative financial instruments	936.2	2,165.7	2,953.8	7,235.0	3,580.4
Other liabilities					
Securities trading and brokerage	1,233.3	9,542.6	7,930.0	11,214.8	5,550.0
Subordinated debts	–	–	4,158.3	4,486.3	2,220.2
Other liabilities	1,533.5	2,348.5	2,419.9	5,394.0	2,669.4
Deferred income	8.4	24.3	31.5	55.0	27.2
Non-controlling interest	–	–	212.2	91.0	45.0
Shareholders' equity	3,244.5	5,602.6	6,339.8	8,953.5	4,430.9
Total liabilities and shareholders' equity	**21,926.7**	**72,906.9**	**82,012.0**	**117,533.9**	**58,164.9**

Income Statement
(Unaudited for June 30, 2011 and 2012)

	For the year ended December 31,			For the six months ended June 30,		
	2009	2010	2011	2011	2012	2012
			(in R$ millions)			(in US$ millions)
Financial income	**1,996.4**	**3,510.1**	**5,836.1**	**2,718.6**	**4,357.7**	**2,156.5**
Loans	190.5	327.2	945.6	275.7	613.2	303.5
Marketable securities	1,696.8	2,698.3	4,589.1	2,181.2	3,428.4	1,696.6
Derivative financial instruments	(34.5)	415.8	11.0	220.0	152.3	75.4
Foreign exchange	143.6	68.8	249.3	41.7	122.6	60.7
Mandatory investments	–	–	41.1	–	41.2	20.4
Financial expenses	**(1,479.9)**	**(2,428.5)**	**(4,549.6)**	**(2,032.3)**	**(2,916.6)**	**(1,443.4)**
Funding operations	(1,071.2)	(2,458.9)	(4,002.0)	(2,023.9)	(2,402.8)	(1,189.1)
Borrowings and onlending	(155.2)	37.4	(517.6)	4.2	(279.5)	(138.3)
Allowance for loan losses and other receivables	(253.5)	(7.0)	(30.0)	(12.6)	(234.3)	(115.9)
Gross financial income	**516.5**	**1,081.6**	**1,286.5**	**686.3**	**1,441.1**	**713.2**
Other operating income (expenses)	**869.4**	**340.7**	**388.4**	**241.0**	**392.3**	**194.1**
Income from services rendered	671.2	803.0	1,107.6	498.1	761.9	377.0
Personnel expenses	(181.0)	(227.7)	(359.7)	(125.8)	(188.7)	(93.4)
Other administrative expenses	(159.3)	(255.2)	(355.5)	(137.2)	(291.1)	(144.1)
Tax charges	(127.6)	(188.3)	(286.0)	(119.6)	(170.9)	(84.6)
Equity in the earnings of associates	–	–	(3.5)	28.8	268.4	132.8
Other operating income	702.4	238.7	372.1	128.4	212.9	105.4
Other operating expenses	(36.3)	(29.8)	(86.6)	(31.8)	(200.2)	(99.1)
Operating income	**1,385.9**	**1,422.3**	**1,674.9**	**927.3**	**1,833.4**	**907.3**
Non-operating income	8.0	(0.4)	9.2	9.2	–	–
Income before taxation and profit sharing	**1,393.9**	**1,421.9**	**1,684.1**	**936.5**	**1,833.4**	**907.3**
Income tax and social contribution	**(477.4)**	**(381.6)**	**199.2**	**(292.3)**	**(296.9)**	**(146.9)**
Provision for income tax	(39.7)	(69.2)	(116.6)	(111.7)	(202.7)	(100.3)
Provision for social contribution	(23.1)	(39.7)	(54.6)	(61.9)	(119.1)	(58.9)
Deferred tax assets	(414.6)	(272.7)	370.4	(118.7)	25.0	12.4
Statutory profit sharing	**(287.2)**	**(229.4)**	**(401.2)**	**(198.4)**	**(590.2)**	**(292.1)**
Non-controlling interest	–	–	(5.0)	–	(1.0)	(0.5)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**	**467.9**

Adjusted Income Statement (Unaudited)

	For the year ended December 31,			For the six months ended June 30,		
	2009	2010	2011	2011	2012	2012
	(in R$ millions)					(in US$ millions)
Investment banking	215.8	344.0	338.3	198.7	178.8	88.5
Corporate lending	63.2	251.1	366.5	187.8	241.6	119.6
Sales and trading	560.8	637.8	999.9	345.8	895.9	443.4
Asset management	295.7	298.4	443.2	160.7	349.1	172.8
Wealth management	49.7	103.5	144.5	69.2	72.3	35.8
PanAmericano	–	–	(52.0)	24.1	(118.8)	(58.8)
Principal investments	24.0	201.6	(111.2)	13.4	689.1	341.0
Interest and other	(9.2)	147.4	518.1	240.9	267.3	132.3
Total revenues	**1,200.0**	**1,983.8**	**2,647.1**	**1,240.5**	**2,575.3**	**1,274.5**
Bonus	(242.4)	(232.0)	(479.6)	(199.4)	(612.4)	(303.1)
Retention expenses	548.4	(53.3)	(32.5)	(26.8)	(5.9)	(2.9)
Salaries and benefits	(165.1)	(159.9)	(213.2)	(89.5)	(144.5)	(71.5)
Administrative and others	(116.0)	(207.9)	(293.2)	(123.1)	(216.2)	(107.0)
Goodwill amortization	–	(8.4)	(31.2)	(16.8)	(175.4)	(86.8)
Tax charges, other than income tax	(110.6)	(129.5)	(177.0)	(82.7)	(108.1)	(53.5)
Total operating expenses	**(85.7)**	**(791.0)**	**(1,226.7)**	**(538.3)**	**(1,262.5)**	**(624.8)**
Income before taxes	**1,114.3**	**1,192.8**	**1,420.5**	**702.1**	**1,312.8**	**649.7**
Income tax and social contribution revenue (expense)	(485.0)	(381.9)	56.6	(256.3)	(367.4)	(181.8)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**	**467.9**

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

Overview

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

Our seven business units are:

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

We are committed to further expanding our platform outside of Brazil and in 2012 signed agreements to acquire (i) Celfin, a leading broker dealer in Chile that also operates in Peru and Colombia and (ii) Bolsa y Renta, a leading broker dealer in Colombia. Both Celfin and Bolsa y Renta have a wide array of products and services (concentrating in investment banking, sales and trading, asset management and wealth management), and upon completion of these acquisitions, we intend to further expand their operations to include many of the additional products and services we currently offer in Brazil. We believe our transactions with Celfin and Bolsa y Renta represent milestones in our efforts to replicate our history of success in Brazil throughout Latin America, and uniquely positions us as a true leader throughout the region. Our acquisitions of Celfin and Bolsa y Renta remain subject to approval by the relevant governmental authorities, which we expect to receive later this year.

We are part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer, and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of BTG Pactual Group's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues in our asset management unit.

Macroeconomic Environment

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

The global financial markets crisis, which commenced in 2008, continued to significantly affect the world economy in 2009. The slowdown in Brazil resulting from the global financial markets crisis lasted two quarters in early 2009 but it did not cause any significant regulatory changes or extraordinary government intervention. Brazil's real GDP contracted 0.33% in 2009, reflecting the depth of the downturn early in the year despite the recovery thereafter.

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

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

The unstable international economic environment in 2011, which reflected concerns with fiscal difficulties in Europe, impacted Brazil's stock market, which decreased 18.1% in 2011 as measured by the IBOVESPA index. The pace of economic growth in Brazil in 2012 will depend heavily on how the debt crisis in Europe is further addressed and how domestic Brazilian markets will perform in light of such conditions, according to the Institute for Applied Economic Research (IPEA), the Brazilian government body tasked with producing and disseminating research intended to improve public economic policy. In May, industrial production fell for the third consecutive month, with a 1.8% decline in the previous twelve months – the weakest performance since early 2010. Retail sales also decreased in May after two consecutive months of positive results. For the six months ended June 30, 2012, the IPCA inflation accumulated a variation of 2.32%, with 12-month accumulated inflation falling to 4.9% (versus 5.2% for the 12 months ended March 31, 2012). The exchange rate reached R$2.02 per US$1.00 as of June 30, 2012, representing a depreciation of 7.2% compared to December 31, 2011. In addition, the Central Bank further decreased the SELIC rate to 8.5% as of June 30, 2012, which rate decreased to 7.5% on August 29, 2012.

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

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
GDP growth[(1)]	(0.33)%	7.53%	2.73%	3.76%	0.6%
CDI rate[(2)]	9.84%	9.71%	11.60%	5.47%	4.59%
TJLP[(3)]	6.00%	6.00%	6.00%	3.0%	3.0%
SELIC rate[(4)]	8.75%	10.75%	11.00%	12.25%	8.5%
Appreciation (depreciation) of *real* against the U.S. dollar[(5)]	33.80%	3.47%	(11.98)%	6.73%	(7.20)%
Selling exchange rate (at period end) R$ per US$1.00[(6)]	R$1.74	R$1.67	R$1.88	R$1.56	R$2.02
Average exchange rate R$ per US$1.00[(7)]	R$1.99	R$1.76	R$1.67	R$1.63	R$1.86
Inflation (IGP-M)[(8)]	(1.72)%	11.32%	5.10%	3.15%	3.19%
Inflation (IPCA)[(9)]	4.31%	5.91%	6.50%	3.87%	2.32%

Sources: BNDES, Central Bank, IBGE and Economática

(1) *Source: IBGE, Economática*

(2) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of each month and annually).

(3) *Taxa de Juros de Longo Prazo,* or TJLP, represents the long-term interest rate applied by BNDES for long-term financing (at the end of the period).

(4) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC (at the end of period).

(5) Calculated for 2009, 2010 and 2011 using the exchange rate for conversion of U.S. dollars into *reais* on December 31 as compared to January 1 of the same year and, for June 30, 2011 and 2012, using the exchange rate for conversion of U.S. dollars into *reais* on June 30 as compared to January 1 of the same year.

(6) The selling exchange rate at the end of the period.

(7) Average of the selling exchange rates on the last day of each month during the period.

(8) The inflation rate is the general index of market prices (*Índice Geral de Preços – Mercado*) or IGP-M, as calculated by FGV.

(9) The inflation rate is the Consumer Price Index, as calculated by the IBGE.

Principal Factors Affecting Our Financial Condition and Results of Operations

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

Market Conditions and Market Risk

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

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

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

- Our cost of obtaining long-term unsecured funding is directly related to our credit spreads. Credit spreads are influenced by market perceptions of our creditworthiness. Widening credit spreads, as well as significant declines in the availability of credit, may adversely affect our ability to borrow. We fund our operations on an unsecured basis by issuing deposits, medium-term debt and long-term debt, or by obtaining lines of credit. We seek to finance many of our assets, including our less liquid assets, on a secured basis, including by entering into repurchase agreements. Disruptions in credit and financial markets make it difficult and more expensive to obtain funding for our businesses. If available funding is limited or we are forced to fund our operations at higher costs, these conditions may require us to curtail our business activities or increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing, lending and taking principal positions, including market making.

- In the recent past, all of our business units, particularly our investment banking unit, have been, and may continue to be, adversely affected by challenging market conditions. For example, although we are not materially exposed to the debt of European countries such as Greece, Ireland, Italy, Portugal and Spain, there can be no assurance that the market disruptions that have been emerging in Europe since 2010, including the increased cost of funding for such countries' governments and financial institutions, will not spread, nor can there be any assurance that future financial assistance will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere, including Brazil and other markets in which we operate. With respect to our investment banking unit, unfavorable economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected the confidence of investors, companies and their controlling shareholders, and management teams, resulting in significant industry-wide declines in the size and number of underwritten capital raising and of financial advisory transactions, which could have an adverse effect on us.

- Certain of our sales and trading as well as our principal investment units depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these business units. However, while increased volatility can increase trading volumes and spreads, such volatility also increases risk as measured by VaR and may expose us to increased risks in connection with our sales and trading and principal investments units or cause us to reduce the size of these units in order to avoid increasing our VaR. Limiting the size of our sales and trading or our principal investment units can adversely affect us.

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

Liquidity Risk

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

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

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

Credit and Counterparty Risk

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

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

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

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

Operational Risk

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

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

Legal and Regulatory Risk

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

As a financial institution, we are generally subject to capital requirements on a consolidated basis set forth by the Central Bank, and certain of our subsidiaries are also subject to capital requirements based on standards adopted by local (i.e., host) regulators by whom they are also supervised on a stand-alone basis. Complying with these requirements may require us to liquidate assets or raise capital in a manner that adversely increases our funding costs or otherwise adversely affects our unit holders and creditors. In addition, failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition. Like other institutions that operate in the financial segments in which we operate, we face some litigation risks in our businesses, including potential litigation involving securities fraud, conflicts of interest and insider trading, among others. For additional information regarding global regulatory standards for banks and banking systems and their implementation in Brazil, see "Regulatory Overview—The Brazilian Financial System and Banking Regulation—Banking Regulation—Principal Limitations and Restrictions on Financial Institutions—Capital Adequacy and Leverage."

Through our subsidiaries in the United States, we are also subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and the SEC, and, through BTG Pactual Europe LLP, one of our operating entities authorized by the FSA to provide investment services in the United Kingdom, we are additionally subject to the supervision of the FSA and related regulatory requirements in the United Kingdom. See "Risk Factors—Risk Factors Relating to the Regulatory Environment—The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulations, and we cannot predict the effect of such regulation on our business," "Regulatory Overview—Regulation in the United States" and "Regulatory Overview—Regulation in the United Kingdom."

Tax Risk

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

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

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

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

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

Reputational Risk

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

Our Audited Financial Statements

Applicable Accounting Standards

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

As a result of our registration as a public company with the CVM, we were required to prepare consolidated financial statements for the years ended December 31, 2010 and 2011 in accordance with IFRS for the purpose of filing our offering documents with the CVM. Unless the context requires otherwise, any reference to our financial statements as of for the years ended December 31, 2009, 2010 and 2011 and as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 in this Offering Memorandum are to those consolidated financial statements of Banco BTG Pactual prepared in accordance with the accounting practices applicable to institutions accredited by the Central Bank (Brazilian GAAP). No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See "Annex A: Principal Differences Between Brazilian GAAP and IFRS."

Functional Currency

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

Emphasis Paragraphs Included in the Auditors' Reports

Our auditors' reports include certain emphasis paragraphs that are described in detail under "Presentation of Financial and Other Information—Financial Statements—Emphasis Paragraphs Included in the Auditors' Reports."

Selected Balance Sheets and Income Statements

Our balance sheet and income statement data as of and for the years ended December 31, 2009, 2010 and 2011 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011. Our balance sheet and income statement data as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 are derived from and should be read in conjunction with our unaudited interim consolidated financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012.

Critical Accounting Policies

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

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

Market Value

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

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

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

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

Open Market Investments and Open Market Funding

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

Securities

We record securities in our portfolio as follows:

- *Trading Securities*. We record the securities we acquire for trading in our balance sheet at their acquisition cost, and recognize any valuation adjustments resulting from mark-to-market accounting and earnings derived from such securities on a daily basis. These adjustments and earnings are also recognized as revenues or expenses, as the case may be, in our income statement.

- *Securities available for sale*. We record any securities in balance sheet not classified as trading securities nor securities held to maturity as securities available for sale. These securities are maintained in our books at their acquisition cost, and are marked-to-market on a daily basis following the same valuation criteria as with respect to the trading securities. However, the unrealized gains or losses from securities available for sale are recorded as other comprehensive income, or OCI, in our net equity in our income statement. Once the securities available for sale security is sold or otherwise disposed of, unrealized gains or losses recorded in OCI are released through our income statement.

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

Derivatives

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

- *Options*. A premium received is classified as a liability until option maturity, when it is then recognized as a reduction of the cost of the acquired financial instrument underlying the option or as income, in the event that the option expires and is not exercised. A premium paid is classified as an asset until the option maturity, when it is then recognized as an increase in the cost of the acquired financial instrument underlying the option or as an expense, in the event that the option expires and is not exercised. During the period of the contract, options are marked-to-market and the corresponding gain or loss is recorded in our income statement. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.

- *Futures contracts*. The daily adjustment of our futures contracts are recorded as income or expenses as effectively earned or incurred. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.

- *Swaps and non-deliverable forwards*. The differential receivable or payable is recorded in our balance sheet and the corresponding revenue or expense, respectively, is recorded in our income statement on a daily basis at market value. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.

- *Forward*. Long and short positions of each contract are booked separately as an asset and liability, respectively, in our balance sheet. The contracts are marked to market and the corresponding gain or loss is recognized in our income statement. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.

Loans and Allowance for Loan Losses

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

Provision for Legal Contingencies

We are currently party to tax, labor and civil proceedings arising from the normal course of our business. For each of these legal proceedings, we classify as "probable," "possible" and "remote" the risk that any contingencies will materialize into actual losses for us. We generally record provisions in our books when we classify the risk of any loss related to these contingencies as probable. We do not constitute provisions for contingencies when we consider the associated risk as possible or remote. We also do not recognize in our financial statements contingent assets, unless there is evidence based on an irrevocable decision of the relevant court or regulatory authority ensuring their realization. We typically base our classifications of the probability of losses on legal claims on the opinion of our external counsel, taking into consideration the analysis of the possible outcomes of the claims, the litigation strategies for challenging such claims or the possibility of entering into agreements in relation to such claims. Any change in the circumstances of the claims are taken into account in the process of classification of our risk of loss in the lawsuits to which we are party and may lead us to revise our provision for contingencies.

Recognition of Results of Operations

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

Cash and Cash Equivalents

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

Deferred Income Tax and Social Contribution

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

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

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

Current and Long-Term Liabilities

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

Offsetting Financial Securities and Derivatives

We offset financial assets and financial liabilities and report the corresponding net amount in our balance sheets if (i) we are legally entitled to offset such financial assets and liabilities and (ii) we intend to (a) settle such financial assets and financial liabilities on a net basis or (b) realize the financial asset and settle the financial liability simultaneously.

Sale and Transfer of Financial Assets

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

Our Unaudited Adjusted Income Statement

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

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement, as further described below.

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

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

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

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

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

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

Initial Public Offering

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

Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE

In January 2011, we entered into an agreement to purchase 100% of the shares in Banco PanAmericano held by Grupo Silvio Santos for R$450.0 million, representing a 37.64% equity interest in Banco PanAmericano (composed of 51.0% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011. Such acquisition triggered a requirement that we commence a tender offer to purchase additional shares of Banco PanAmericano held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an immaterial amount of additional non-voting shares of Banco PanAmericano. As a result, we maintained our 37.64% equity interest in Banco PanAmericano's total outstanding equity. In connection with this acquisition, we and CaixaPar, the co-controlling entity which owns a 36.56% equity interest in Banco PanAmericano's total capital stock, entered into a shareholders agreement which establishes the conditions for the shared control of Banco PanAmericano. In addition, CaixaPar reiterated its commitment to preserve its strategic alliance with Banco PanAmericano by entering into a cooperation agreement under which CaixaPar agreed to acquire credits originated by, and invest in deposits issued by Banco PanAmericano, thus helping to support its future business. Banco PanAmericano and CaixaPar also intend to expand the range of the financial products and services they offer through leveraging on their distribution channels. We believe the deal will strengthen our partnership with CaixaPar.

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

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

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

Banco PanAmericano generated a consolidated net income of R$67.0 million in 2011 and a consolidated net loss of R$259.5 million in the six months ended June 30, 2012. We cannot assure you that it will not continue to generate net losses during 2012 or thereafter. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated losses adjustments relating to previous periods, is recognized in our income statement as equity in the earnings of associates. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2011. Accordingly, we recorded losses of R$27.2 million in connection with Banco PanAmericano's equity pick-up for 2011 and R$79.1 million in losses for the six months ended June 30, 2012. Banco PanAmericano's management is taking several initiatives intended to improve Banco PanAmericano's profitability and avoid any further accumulated loss adjustments.

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

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

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

Acquisition of Celfin

On February 8, 2012, we entered into definitive agreements to purchase all of the outstanding shares of Celfin. In connection with the transaction, we will pay the owners of Celfin a total of US$486.0 million in cash, and US$245.7 million of such amount will be used to purchase equity interests in us and BTGI, respectively. Such equity is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so. On April 2, 2012, we approved the issuance of warrants in relation to this transaction in the total amount of US$196.0 million, which must be exercised by December 31, 2012. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory and corporate approvals. Although there can be no assurance that the transaction will be settled, we expect the transaction to settle later this year.

Establishment of One Properties and Merger into BR Properties

On June 10, 2011, we entered into an investment agreement with WTorre Properties S.A. to establish One Properties S.A., or One Properties, a jointly-controlled company focused on the development, acquisition, leasing and sale of commercial & industrial/logistics real estate properties in Brazil. Under the terms of this transaction, which settled on November 22, 2011, a real estate vehicle controlled by us through a 91.9% equity interest, Saíra Diamante Empreendimentos Imobiliários S.A., transferred real estate assets and cash to One Properties in the aggregate amount of R$1.5 billion in exchange for 49.9% of the ownership interests in the joint venture, plus warrants that permit it to purchase an additional 23.4% ownership interest, subject to certain conditions.

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

Acquisition of Coomex Empresa Operadora do Mercado Energético Ltda.

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

Establishment of BW Properties S.A.

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

Corporate Restructuring

In September 2011, following the granting of the required regulatory approvals, we concluded a corporate restructuring pursuant to which former subsidiaries of BTGI responsible for conducting the BTG Pactual Group's international platforms in London, New York and Hong Kong were transferred to us. The purpose of this transaction was to transfer the remaining operating subsidiaries of BTGI to us, and was effected at book value in an aggregate amount of US$188.1 million. Although this corporate restructuring will not affect the financial condition or results of operations of the BTG Pactual Group, we expect that it will materially affect our administrative and personnel expenses on a stand-alone basis going forward. After the completion of this corporate restructuring, BTGI continues to function as the investment vehicle for part of our principal investment business of the BTG Pactual Group. As a result of the restructuring, BTGI has no operating activities, directly or through any of its subsidiaries, and its assets will continue to be managed by our asset management unit.

Acquisition of Bolsa y Renta

On June 14, 2012, we entered into a definitive agreement to purchase 100% of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for approximately US$51.9 million, thus concluding negotiations initiated with Bolsa y Renta in 2011. In connection with the transaction, Bolsa y Renta's current shareholders will invest approximately US$32.5 million in our equity and the equity of BTG Pactual Participations, pursuant to which they will receive units representing approximately 0.25% of our total capital stock and the capital stock of BTG Pactual Participations (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to our initial public offering. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction. The transaction remains subject to the satisfaction of several customary closing conditions, including the receipt of all required regulatory and corporate approvals in Brazil and Colombia.

Our Income Statement

The following table sets forth our income statement prepared in accordance with Brazilian GAAP for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012 included in our financial statements:

(Unaudited for June 30, 2011 and 2012)	For the year ended December 31,			For the six months ended June 30,		
	2009	**2010**	**2011**	**2011**	**2012**	**2012[(1)]**
			(in R$ millions)			**(in US$ millions)**
Financial income	**1,996.4**	**3,510.1**	**5,836.1**	**2,718.6**	**4,357.7**	**2,156.5**
Loans	190.5	327.2	945.6	275.7	613.2	303.5
Marketable securities	1,696.8	2,698.3	4,589.1	2,181.2	3,428.4	1.696.6
Derivative financial instruments	(34.5)	415.8	11.0	220.0	152.3	75.4
Foreign exchange	143.6	68.8	249.3	41.7	122.6	60.7
Mandatory investments	–	–	41.1	–	41.2	20.4
Financial expenses	**(1,479.9)**	**(2,428.5)**	**(4,549.6)**	**(2,032.3)**	**(2,916.6)**	**(1,443.4)**
Funding operations	(1,071.2)	(2,458.9)	(4,002.0)	(2,023.9)	(2,402.8)	(1,189.1)
Borrowings and onlending	(155.2)	37.4	(517.6)	4.2	(279.5)	(138.3)
Allowance for loan losses and other receivables	(253.5)	(7.0)	(30.0)	(12.6)	(234.3)	(115.9)
Gross financial income	**516.5**	**1,081.6**	**1,286.5**	**686.3**	**1,441.1**	**713.2**
Other operating income (expenses)	**869.4**	**340.7**	**388.4**	**241.0**	**392.3**	**194.1**
Income from services rendered	671.2	803.0	1,107.6	498.1	761.9	377.0
Personnel expenses	(181.0)	(227.7)	(359.7)	(125.8)	(188.7)	(93.4)
Other administrative expenses	(159.3)	(255.2)	(355.5)	(137.2)	(291.1)	(144.1)
Tax charges	(127.6)	(188.3)	(286.0)	(119.6)	(170.9)	(84.6)
Equity in the earnings of associates	–	–	(3.5)	28.8	268.4	132.8
Other operating income	702.4	238.7	372.1	128.4	212.9	105.4
Other operating expenses	(36.3)	(29.8)	(86.6)	(31.8)	(200.2)	(99.1)
Operating income	**1,385.9**	**1,422.3**	**1,674.9**	**927.3**	**1,833.4**	**907.3**
Non-operating income	8.0	(0.4)	9.2	9.2	–	–
Income before taxation and profit sharing	**1,393.9**	**1,421.9**	**1,684.1**	**936.5**	**1,833.4**	**907.3**
Income tax and social contribution	**(477.4)**	**(381.6)**	**199.2**	**(292.3)**	**(296.9)**	**(146.9)**
Provision for income tax	(39.7)	(69.2)	(116.6)	(111.7)	(202.7)	(100.3)
Provision for social contribution	(23.1)	(39.7)	(54.6)	(61.9)	(119.1)	(58.9)
Deferred tax assets	(414.6)	(272.7)	370.4	(118.7)	25.0	12.4
Statutory profit sharing	**(287.2)**	**(229.4)**	**(401.2)**	**(198.4)**	**(590.2)**	**(292.1)**
Non-controlling interest	–	–	(5.0)	–	(1.0)	(0.5)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**	**467.9**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on June 30, 2012 for *reais* into U.S. dollars of R$2.0207 to U.S.$1.00.

Gross Financial Income

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

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

Our financial expenses are composed primarily of expenses derived from (i) interest expenses in connection with repurchase agreements on open market transactions and deposits; (ii) interest and fees paid on our borrowings in Brazil and abroad, including borrowings from Brazilian governmental agencies such as BNDES, in which we act as agent; (iii) net realized and unrealized losses from (a) our trading of financial instruments for the purpose of mitigating risk, including swaps, forwards, futures, options and other derivatives, and (b) mark-to-market accounting practices applicable to such instruments; (iv) gains or losses on our short position of equities on BM&FBOVESPA; (v) interest expenses on secured funding obtained from our prime brokers and (vi) allowance for loan losses made in accordance with our accounting practices and as determined by the requirements of CMN Resolution 2,682/99.

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

Our gross financial income increased 110.0%, from R$686.3 million in the six months ended June 30, 2011 to R$1,441.1 million in the six months ended June 30, 2012, mainly due to the general growth of our businesses and the deployment of proceeds from our initial public offering in April 2012.

Financial Income. Our financial income increased 60.3%, from R$2,718.6 million in the six months ended June 30, 2011 to R$4,357.7 million in the six months ended June 30, 2012. This increase was due to the following factors:

Loans. Our revenues from loans increased 122.4%, from R$275.7 million in the six months ended June 30, 2011 to R$613.2 million in the six months ended June 30, 2012, mainly due to: (i) a 12.4% increase in our loan portfolio, from an average balance of R$5,071.2 million in the six months ended June 30, 2011 to an average balance of R$5,699.8 million in the same period of 2012; (ii) a substantial increase in our credit receivable portfolio, which includes primarily payroll loans and vehicle financing through our credit receivable investment fund (FIDC), from an average balance of R$353.3 million in the six months ended June 30, 2011 to an average balance of R$2,889.2 million in the same period of 2012; and (iii) a 7.5% appreciation of the U.S. dollar against the *real* in the six months ended June 30, 2012 compared to a 6.3% depreciation of the U.S. dollar against the *real* in the six months ended June 30, 2011, which increased gains from our credit operations backed by export receivables tied to U.S. dollars. Our average balance of export receivables tied to U.S. dollars, which is included in our total loan portfolio, increased 22.0%, from an average balance of R$1,074.0 million in the six months ended June 30, 2011 to an average balance of R$1,310.8 million in the six months ended June 30, 2012. This increase was partially offset by lower CDI interest rates, which decreased from an average of 11.2% in the six months ended 2011 to an average of 9.4% in the six months ended June 30, 2012.

Marketable securities. Our revenues from marketable securities increased 57.2%, from R$2,181.2 million in the six months ended June 30, 2011 to R$3,428.4 million in the six months ended June 30, 2012, mainly due to (i) a 25.3% increase of our Brazilian government bonds portfolio, from an average balance of R$9,769.3 million in the six months ended June 30, 2011 to an average balance of R$12,238.9 million in the six months ended June 30, 2012; (ii) higher trading revenues from securities traded in the international markets; and (iii) higher trading revenues from cash equities due to the performance of the IBOVESPA index (particularly in the first quarter of 2012), which remained relatively stable in the six months ended June 30, 2012, compared to a 10.0% decrease in the six months ended June 30, 2011.

Derivative Financial Instruments. Our results from derivative financial instruments decreased 30.8%, from R$220.0 million in the six months ended June 30, 2011 to R$152.3 million in the six months ended June 30, 2012, mainly due to the 7.8% depreciation of the *real* against the U.S. dollar in the first half of 2012, which resulted in a loss on our derivatives used to hedge our U.S. dollar exposure with respect to the shareholders' equity of our Cayman Islands branch, coupled with lower gains from derivative transactions related to our global market strategy, which was partially offset by higher gains from derivatives linked to interest rates.

Foreign Exchange. Our foreign exchange results increased 194.0%, from R$41.7 million in the six months ended June 30, 2011 to R$122.6 million in the six months ended June 30, 2012, due to trading revenues as a result of the higher foreign exchange rate volatility in the foreign exchange markets in Brazil during this period.

Mandatory Investments. We had revenues of R$41.2 million from mandatory investments in the six months ended June 30, 2012, as a result of a mandatory deposit placed with the Central Bank, compared to no revenue in the six months ended June 30, 2011. As of June 30, 2011, we had no balance of mandatory deposits. Our mandatory deposits are required by the Central Bank as a function of our balance of time deposits, which has been growing consistently in the past years. On July 1, 2011, our total balance of time deposits for the first time exceeded the threshold above which we are required to place mandatory deposits with the Central Bank. The average balance of our mandatory deposits from January 1, 2012 to June 30, 2012 was R$903.1 million, which were indexed to the SELIC rate.

Financial Expenses. Our financial expenses increased 43.5%, from R$2,032.3 million in the six months ended June 30, 2011 to R$2,916.6 million in the six months ended June 30, 2012. This increase was due to the following factors:

Funding Operations. Our expenses from funding operations increased 18.7%, from R$2,023.9 million in the six months ended June 30, 2011 to R$2,402.8 million in the six months ended June 30, 2012, mainly as a result of (i) a 20.8% increase in the average balance of repurchase agreements, from an average balance of R$39,885.6 million in the six months ended June 30, 2011 to an average balance of R$48,170.3 million in the same period of 2012, which generated expenses of R$1,567.0 million in the six months ended June 30, 2012, compared to R$1,458.3 million in the six months ended June 30, 2011; (ii) a 55.5% increase in the average balance of our CDB and CDI portfolios, from an average balance of R$8,869.4 million in the six months ended June 30, 2011 to an average balance of R$13,790.7 million in the six months ended June 30, 2012, which generated expenses of R$516.6 million in the six months ended June 30, 2012, compared to R$428.1 million in the six months ended June 30, 2011; and (iii) an increase in expenses from R$61.0 million in the six months ended June 30, 2011 to R$188.8 million in the six months ended June 30, of 2012, due to our issuance of R$3.975 billion in subordinated notes in April 2011. Such subordinated notes have an average maturity of 7.8 years with no principal payments due until October 2016. This increase was partially offset by lower CDI interest rates, which decreased from an average of 11.2% in the six months ended June 30, 2011 to an average of 9.4% in the six months ended June 30, 2012**.**

Borrowings and onlending. Our expenses from borrowings and onlendings increased from income of R$4.2 million in the six months ended June 30, 2011 to expenses of R$279.5 million in the six months ended June 30, 2012, mainly due to (i) negative mark-to-market adjustments of our equity short position on BM&FBOVESPA, which generated losses of R$91.3 million in the six months ended June 30, 2012, compared to gains of R$29.3 million in the six months ended June 30, 2011; and (ii) losses of R$159.8 million in the six months ended June 30, 2012 from exchange rate fluctuations on our borrowings denominated in currencies other than the *real*, compared to gains of R$14.0 million in the six months ended June 30, 2011.

Allowance for loan losses and other receivables. Our expenses from the allowance for loan losses and other receivables increased from R$12.6 million in the six months ended June 30, 2011 to R$234.3 million in the six months ended June 30, 2012. Our provisions for loan losses as of June 30, 2012 were R$130.0 million, or 1.0% of our total loan portfolio, including credit receivables and off-balance sheet items such as letters of credit and commitments, of R$13,584.7 million, compared to provisions of R$93.1 million, or 0.9% of our total loan portfolio, including credit receivables and off-balance sheet items such as letters of credit and commitments, of R$10,688.1 million as of December 31, 2011. In addition, our provisions for loan losses for our portfolio of other credit receivables, which includes primarily payroll loans and vehicle financing through our credit rights investment (FIDC), as of June 30, 2012 were R$842.7 million, or 31.3% of our portfolio of other credit receivables of R$2,688.1 million, compared to provisions of R$649.0 million, or 21.0% of our portfolio of other credit receivables of R$3,090.3 million as of December 31, 2011.

<u>2011 versus 2010</u>

Our gross financial income increased 18.9%, from R$1,081.6 million in 2010 to R$1,286.5 million in 2011, mainly due to the general growth of our businesses, including as a result of our deployment of the proceeds from the issuance of US$1.44 billion (R$2.41 billion) of new equity capital to the members of the Consortium and the Participating Partners in December 2010, which enhanced our capital base.

Financial Income. Our financial income increased 66.3%, from R$3,510.1 million in 2010 to R$5,836.1 million in 2011. This increase was due to the following factors:

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

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

Derivative Financial Instruments. Our results from derivative financial instruments decreased 97.4%, from a gain of R$415.8 million in 2010 to a gain of R$11.0 million in 2011. Our result in 2011 was mainly due to (i) the 12.0% depreciation of the *real* against the U.S. dollar in 2011, which resulted in a loss on our derivatives used to hedge our U.S. dollar exposure with respect to the shareholders' equity of our Cayman Islands branch, and (ii) losses with equity linked derivatives in 2011. Those losses were offset by a gain with derivatives linked to interest rates movements in 2011. In 2010, our gains were mainly due to the increased volume of derivative transactions entered into with our sales and trading activities, which generated stronger gains in foreign exchange contracts tied to U.S. dollars and CDI during that year, as well as gains from derivative transactions related to our global market strategies.

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

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

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

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

Borrowings and onlending. Our expenses from borrowings and onlending increased from revenue of R$37.4 million in 2010 to an expense of R$517.6 million in 2011, mainly due to (i) negative mark-to-market adjustments of our equity short position on BM&FBOVESPA, which generated losses of R$58.3 million in 2011, compared to gains of R$37.0 million in 2010, (ii) losses from exchange rate fluctuations on our borrowings denominated in currencies other than the *real*, which generated expenses of R$422.6 million in 2011, compared to gains of R$11.0 million in 2010 and (iii) interest paid to prime brokers which amounted to R$31.2 million in 2011, compared to R$7.7 million in 2010. The losses due to exchange rate fluctuations were mainly the result of an (A) increase in our borrowings denominated in currencies other than the *real* in 2011, from an average balance of R$250.1 million in 2010 to an average balance of R$1,489.9 million in 2011, primarily due to our issuance under the Programme of US$500 million in medium term notes in July 2011 and (B) the 12.0% depreciation of the *real* against the U.S. dollar during 2011.

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

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

2010 versus 2009

Our gross financial income increased 109.4%, from R$516.5 million in 2009 to R$1,081.6 million in 2010, mainly due to the overall growth of our business in 2010 resulting from the implementation of new operating strategies following our acquisition in September 2009 from UBS AG.

Financial Income. Our financial income increased 75.8%, from R$1,996.4 million in 2009 to R$3,510.1 million in 2010. This increase was due to the following factors:

Loans. Our revenues from loans increased 71.8%, from R$190.5 million in 2009 to R$327.2 million in 2010, mainly as a result of an 82.2% increase in our loan portfolio, from an average balance of R$1,489.9 million in 2009 to an average balance of R$2,714.1 million in 2010. This increase was partially offset by (i) a 3.5% appreciation of the *real a*gainst the U.S. dollar in 2010*,* which generated lower *real* revenues from our financing operations backed by export futures (the average balance of our financing operations backed by export futures increased from R$81.8 million in 2009 to an average balance of R$570.9 million in 2010), and (ii) a lower average CDI interest rate, which decreased from an average of 9.84% in 2009 to an average of 9.71% in 2010, as measured by CETIP.

Marketable Securities. Our revenues from marketable securities increased 59.0%, from R$1,696.8 million in 2009 to R$2,698.3 million in 2010, mainly due to a 157.1% increase of our open market investments in Brazil, from an average balance of R$5,183.0 million in 2009 to an average balance of R$13,323.3 million in 2010, coupled with a 263.0% increase of our Brazilian government bonds portfolio, from an average balance of R$1,398.0 million in 2009 to an average balance of R$5,074.3 million in 2010. This increase in revenues from marketable securities was partially offset by the lower trading revenues in cash equities, resulting from the lower volatility in the equity markets in which we operate.

Derivative Financial Instruments. We had gains from derivative financial instruments of R$415.8 million in 2010, compared to losses of R$34.5 million in 2009. This increase was mainly due to stronger gains in foreign exchange contracts tied to U.S. dollars and CDI linked derivatives in 2010, as well as gains from derivative transactions related to our global market strategies.

Foreign Exchange. Our foreign exchange results decreased 52.1%, from a gain of R$143.6 million in 2009 to a gain of R$68.8 million in 2010, mainly as a result of the lower foreign exchange rate volatility in the foreign exchange markets in Brazil in 2010 compared to 2009.

Financial Expenses. Our financial expenses increased 64.1%, from R$1,479.9 million in 2009 to R$2,428.5 million in 2010. This increase was due to the following factors:

Funding Operations. Our expenses from funding operations increased 129.5%, from R$1,071.2 million in 2009 to R$2,458.9 million in 2010, mainly as a result of an increase of 104.1% in the average balance of our CDB and CDI issuances, from an average balance of R$3,087.4 million in 2009 to an average balance of R$6,302.0 million in 2010, which generated expenses of R$529.9 million in 2010 compared to expenses of R$270.5 million in 2009, coupled with a 397.3% increase in the average balance of our open market funding portfolio, from an average balance of R$4,212.7 in 2009 to an average balance of R$20,949.6 million in 2010 which generated expenses of R$1,842.9 million in 2010 compared to expenses of R$758.2 million in 2009. These increases were in line with the growth of our credit and marketable securities portfolios described above, and were also affected by the SELIC rate, which increased from 8.75% as of December 31, 2009 to 10.75% as of December 31, 2010.

Borrowings and onlending. Our expenses from borrowings and onlending varied from an expense of R$155.2 million in 2009 to a gain of R$37.4 million in 2010. This variation was mainly due to positive mark-to-market adjustments of R$37.0 million of our equity short position on BM&FBOVESPA in 2010, compared to the negative mark-to-market adjustments of R$137.2 million in 2009, coupled with currency exchange gains of R$11.0 million in 2010 generated by our borrowings denominated in U.S. dollars, compared to expenses of R$17.0 million in 2009.

Derivative Financial Instruments. See explanation in Financial Income above.

Allowance for loan losses and other receivables. Our expenses from the allowance for loan losses and other receivables decreased 97.2%, from R$253.5 million in 2009 to R$7.0 million in 2010. In 2010, following the improvement of the global economic scenario after the financial economic crisis at the end of 2009, especially in Brazil, we reversed our provisions for credit losses. The balance of our allowance for loan losses and other receivables totaled R$89.5 million as of December 31, 2009, representing 5.8% of our total loan portfolio of R$1,535.8 million, and R$81.2 million as of December 31, 2010, representing 1.8% of our total loan portfolio of R$4,406.1 million. In 2010, we had credit write-offs of R$31.3 million (which did not result in additional expenses but reduced the amount of provisions in our balance sheet) in connection with corporate loans. In 2009, we increased the balance of our allowance for loan losses due to the worsening of the global economic scenario, and the corresponding impacts on the Brazilian economy.

Other Operating Income (Expenses)

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

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

(Unaudited for June 30, 2011 and 2012)	For the year ended December 31, 2009	2010	2011	For the six months ended June 30, 2011	2012
	(in R$ millions)				
Income from services rendered	671.2	803.0	1,107.6	498.1	761.9
Personnel expenses	(181.0)	(227.7)	(359.7)	(125.8)	(188.7)
Other administrative expenses	(159.3)	(255.2)	(355.5)	(137.2)	(291.1)
Tax charges	(127.6)	(188.3)	(286.0)	(119.6)	(170.9)
Equity in the earnings of associates	–	–	(3.5)	28.8	268.4
Other operating income	702.4	238.7	372.1	128.4	212.9
Other operating expenses	(36.3)	(29.8)	(86.6)	(31.8)	(200.2)
Other operating income (expenses)	**869.4**	**340.7**	**388.4**	**241.0**	**392.3**

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

(Unaudited for June 30, 2011 and 2012)	For the year ended December 31, 2009	2010	2011	For the six months ended June 30, 2011	2012
	(in R$ millions)				
Management fee and performance premiums for investment funds and portfolio	321.2	343.4	511.4	194.1	419.0
Brokerage	93.6	107.7	107.7	42.6	55.5
Underwriting and advisory fees	249.0	330.0	415.8	235.6	237.3
Other services[(1)]	7.4	21.9	72.7	25.9	50.1
Income from services rendered	**671.2**	**803.0**	**1,107.6**	**498.1**	**761.9**

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

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

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

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

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

Our other operating income is composed primarily of revenues generated by forward energy contracts traded through Coomex, which was acquired in 2010, and by the reversal of our provision for retention plan expenses. The retention plan was established to the benefit of certain employees, many of them also partners, in connection with its acquisition by UBS AG in 2006. In 2009, following the acquisition of Banco UBS Pactual by our controlling shareholder, a significant portion of the payments still due under our retention plan were ultimately waived by the majority of the UBS AG employees who were beneficiaries of the plan and became our Partners as a result of the acquisition. This waiver caused all such retention expenses to be cancelled. The remaining portion of the retention plan expired in February 2012, and we have no plans to reinstitute other retention plans going forward.

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

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

Our other operating income (expense) (i) increased 62.8%, from R$241.0 million in the six months ended June 30, 2011 to R$392.3 million in the six months ended June 30, 2012.

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

	For the six months ended June 30,				
(Unaudited)	**2011**	**% of total**	**2012**	**% of total**	**Variation (%)**
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	194.1	39.0%	419.0	55.0%	115.9%
Brokerage	42.6	8.5%	55.5	7.3%	30.3%
Underwriting and advisory fees	235.6	47.3%	237.3	31.1%	0.7%
Other services[(1)]	25.9	5.2%	50.1	6.6%	93.4%
Income from services rendered	**498.1**	**100.0%**	**761.9**	**100.0%**	**52.9%**

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

Our income from services rendered increased 52.9%, from R$498.1 million in the six months ended June 30, 2011 to R$761.9 million in the six months ended June 30, 2012 due to the following factors:

Management fee and performance premium for investment funds and portfolio. Our income from management fee and performance premium for investment funds and portfolio increased 115.9%, from R$194.1 million in the six months ended June 30, 2011 to R$419.0 million in the six months ended June 30, 2012. This increase was mainly due to: (i) an increase of 31.6% in our AUM and AUA, from R$100.7 billion as of June 30, 2011 to R$132.5 billion as of June 30, 2012 and the resulting positive impact on management fees, and (ii) an increase in performance fees received from our funds, particularly our global hedge funds, due to strong performance as a result of improved market conditions.

Brokerage. Our brokerage fees increased 30.3%, from R$42.6 million in the six months ended June 30, 2011 to R$55.5 million in the six months ended June 30, 2012. This increase was mainly due to the transfer of our United States and Europe broker dealer operations from BTGI to us in September 2011 pursuant to the corporate restructuring of the BTG Pactual Group. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring."

Underwriting and advisory fees. Our revenues from underwriting and advisory fees remained relatively stable, totaling R$235.6 million in the six months ended June 30, 2011 and R$237.3 million in the six months ended June 30, 2012. While (i) revenues from M&A advisory services fees decreased in the six months ended June 30, 2012 compared to the same period in 2011 due to two significant fees received in the six months ended June 30, 2011 in connection with material transactions announced in 2010 (fees are generally due at closing) and (ii) there was a decrease in the aggregate value of equity offerings in which we acted as underwriters as a result of the overall reduction in the value of transactions in the Brazilian equity market, from R$15.4 billion in the six months ended June 30, 2011 to R$7.9 million in the same period of 2012, there was an increase in revenues from debt offerings in which we participated as underwriters due to the strong levels of activity in the Brazilian debt market, the total value of which increased from US$2.7 billion in the six months ended June 30, 2011 to US$3.0 billion in the same period of 2012.

Other services. Our revenue from other services increased 93.4%, from R$25.9 million in the six months ended June 30, 2011 to R$50.1 million in the six months ended June 30, 2012. This increase was mainly due to higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, mainly as a result of our strategy to grow our loan portfolio.

Personnel expenses. Our personnel expenses increased 50.0% from R$125.8 million in the six months ended June 30, 2011 to R$188.7 million in the six months ended June 30, 2012. This increase in our personnel expenses was due to an average annual salary adjustment of 9.0% for our employees pursuant to the terms of the annual union agreement reached in September 2011 and increase in personnel expenses for our statutory officers, coupled with an increase in the number of employees, from 1,065 as of June 30, 2011 to 1,434 as of June 30, 2012. This increase in the number of employees is associated with the organic growth of our business as well as the transfer of 149 employees from BTGI to us in September 2011 as part of a corporate restructuring of the BTG Pactual Group pursuant to which the subsidiaries of BTGI responsible for conducting our international activities in London, New York and Hong Kong were transferred to us.

Other administrative expenses. Our other administrative expenses increased 112.2%, from R$137.2 million in the six months ended June 30, 2011 to R$291.1 million in the six months ended June 30, 2012. This increase was mainly due to (i) expenses incurred in the six months ended June 30, 2012 with respect to our initial public offering in the total amount of R$51.0 million and (ii) R$70.6 million in expenses, including expenses such as rent and travel, related to our international activities in London, New York and Hong Kong. Such activities were transferred to us in September 2011 as part of the corporate restructuring of the BTG Pactual Group. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring."

Tax charges. Our tax charges increased 42.9%, from R$119.6 million in the six months ended June 30, 2011 to R$170.9 million in the six months ended June 30, 2012. Most of our tax charges are applicable to revenues generated in Brazil. The increase in our tax charges was mainly due to an increase in our revenues subject to tax charges resulting from our overall business growth, which was partially offset by an increase of revenues generated by our Cayman Islands branch (which are not taxable in Brazil) as a percentage of our total revenues and higher gains on equity in the earnings of associates, which are also not subject to tax charges.

Equity in the earnings of associates. Our equity in the earnings of associates increased from R$28.8 million in the six months ended June 30, 2011 to R$268.4 million in the six months ended June 30, 2012. In the six months ended June 30, 2012, our equity in the earnings of associates was mainly attributable to our proportional share of net income of (i) BR Properties, in the amount of R$315.8 million, net of the provision for devaluation in the amount of R$347.2 million, (ii) Warehouse 1 Empreendimentos Imobiliários S.A., in the amount of R$16.9 million and (iii) One Properties, in the amount of R$15.4 million. Such equity in earnings was partially offset by our proportional share of net losses from Banco PanAmericano in the amount of R$79.1 million in the same period in

2012. In the six months ended June 30, 2011, our equity in the earnings of associates was mainly attributable to our proportional share of net income from Banco PanAmericano in the amount of R$28.8 million.

Other operating income. Our other operating income increased 65.8%, from R$128.4 million in the six months ended June 30, 2011 to R$212.9 million in the six months ended June 30, 2012. This increase was mainly due to (i) increased revenues generated by forward energy contracts, from R$90.8 million in the six months ended June 30, 2011 to R$152.1 million in the six months ended June 30, 2012 and (ii) the monetary restatement of certain legal deposits in the amount of R$6.4 million in the six months ended June 30, 2011 to R$19.1 million in the same period of 2012.

Other operating expenses. Our other operating expenses increased 529.6%, from R$31.8 million in the six months ended June 30, 2011 to R$200.2 million in the six months ended June 30, 2012 mainly due to (i) R$116.8 million in goodwill amortization expenses incurred in the six months ended June 30, 2012, which include (a) R$69.5 million in amortization expenses from the acquisition of Coomex, which expenses were greater than in the same period in 2011 as a result of profits generated by Coomex since its acquisition and (b) R$46.9 million in goodwill impairment; (ii) interest charges of R$22.1 million incurred in the six months ended June 30, 2012 in connection with the acquisition of Banco PanAmericano, which are payable until July 31, 2018; (iii) provisions of R$9.2 million during the six months ended June 30, 2012 for losses resulting from a decrease in value in the six months ended June 30, 2012 of real estate collateral received in connection with a single credit transaction; and (iv) other expense increases resulting from exchange rate variations on certain receivables denominated in U.S. dollars, mainly management fees, and expenses from our broker dealer operations, including execution and commission fees.

2011 versus 2010

Our other operating income (expenses) increased 14.0%, from R$340.7 million 2010 to R$388.4 million in 2011. This increase was due to the following factors.

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

	For the year ended December 31,				
	2010	% of total	2011	% of total	Variation (%)
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	343.4	42.8%	511.4	46.2%	48.9%
Brokerage	107.7	13.4%	107.7	9.7%	0.0%
Underwriting and advisory fees	330.0	41.1%	415.8	37.5%	26.0%
Other services[(1)]	21.9	2.7%	72.7	6.6%	232.0%
Income from services rendered	**803.0**	**100.0%**	**1,107.6**	**100.0%**	**37.9%**

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

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

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

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

Underwriting and advisory fees. Our revenues from underwriting and advisory fees increased 26.0%, from R$330.0 million in 2010 to R$415.8 million in 2011. The increase in revenues was mainly due to (i) increased revenues from M&A advisory services fees in connection with material transactions announced in 2010 that closed in 2011 (as such fees are generally payable at closing) and (ii) higher than average fees due to a positive fee environment. This revenue increase was partially offset by a decrease in the aggregate value of equity offerings in which we acted as underwriters as a result of adverse market conditions, from R$143.1 billion in 2010 to R$11.4 billion in 2011. The aggregate value of equity offerings in 2010, however, includes the Petrobras equity offering which represented a very significant part of the equity issuance in 2010 and paid lower than average fees.

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

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

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

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

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

Other operating income. Our other operating income increased 55.9%, from R$238.7 million in 2010 to R$372.1 million in 2011. In 2010, our other operating income was mainly composed of (i) revenues of R$65.1 million generated by forward energy contracts, (ii) the reversal of contingency provisions of R$99.0 million due to the favorable outcome of commercial claims to which we were a party, and (iii) the reversal of provisions for labor costs of R$31.7 million as a result of favorable evaluations of our outside legal advisors. In 2011, the other operating income was mainly composed of (i) revenues of R$240.0 million from forward energy contracts, (ii) R$70.8 million due to a monetary restatement of legal deposits, and (iii) reversal of bonuses in the amount of R$20.6 million.

Other operating expenses. Our other operating expenses increased 190.6%, from R$29.8 million in 2010 to R$86.6 million in 2011. This increase was mainly due to (i) the amortization of goodwill from our acquisition of Coomex in October 2010, which generated amortization charges of R$8.4 million in 2010 and R$31.8 million in 2011. See "—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Coomex Empresa Operadora do Mercado Energético Ltda." and (ii) interest charges of R$30.9 million on R$450.0 million owed in connection with the acquisition of Banco PanAmericano, which is payable until July 31, 2018. See "—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE."

2010 versus 2009

Our other operating income (expenses) decreased 60.8%, from R$869.4 million in 2009 to R$340.7 million in 2010. This decrease was due to the following factors:

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

	For the year ended December 31,				
	2009	**% of total**	**2010**	**% of total**	**Variation (%)**
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	321.2	47.9%	343.4	42.8%	6.9%
Brokerage	93.6	13.9%	107.7	13.4%	15.1%
Underwriting and advisory fees	249.0	37.1%	330.0	41.1%	32.5%
Other services[1]	7.4	1.1%	21.9	2.7%	195.9%
Income from services rendered	**671.2**	**100.0%**	**803.0**	**100.0%**	**19.6%**

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

Our income from services rendered increased 19.6%, from R$671.2 million in 2009 to R$803.0 million in 2010. This increase was due to the following factors:

Management fee and performance premium for investment funds and portfolio. Our income from management fee and performance premium for investment funds and portfolio remained relatively stable, varying from R$321.2 million in 2009 to R$343.4 million in 2010. This 6.9% increase was mainly due to the growth of our AUM and WUM for the period. For additional information, see "Adjusted Income Statement (Unaudited)—2010 versus 2009—Asset Management and Wealth Management."

Brokerage. Our brokerage fees increased 15.1%, from R$93.6 million in 2009 to R$107.7 million in 2010. This increase reflects the overall increase in volume of financial transactions in which we acted as brokers. The average daily trading volume (ADTV) of equity securities on BM&FBOVESPA increased from approximately R$5.3 billion in 2009 to R$6.5 billion in 2010 and the average daily contracts volume for derivatives on BM&FBOVESPA increased from R$1.5 billion to R$2.5 billion.

Underwriting and advisory fees. Our revenues from underwriting and advisory fees increased 32.5%, from R$249.0 million in 2009 to R$330.0 million in 2010. This increase in revenue resulted mainly from an increase in deal flow in 2010 in all segments of our investment banking unit, particularly in the number of debt deals in which we acted as underwriters due to our efforts to increase our performance in this segment, including by hiring a team focused on international offerings. However, this increase in revenues was partially offset by an increase in the average number of syndicate banks participating as underwriters in equity offerings. In addition, we served as an underwriter in the Petrobras equity offering in 2010, which significantly increased our total transaction value in 2010 but did not generate a correspondingly significant underwriting fee due to low fees given the transaction size and the fact that a substantial portion of the shares issued in the offering were purchased by the Brazilian government, which did not pay commissions or fees to the underwriters. For additional information, see "Adjusted Income Statement (Unaudited) – 2010 versus 2009 – Investment Banking."

Other services. Our revenue from other services increased 195.9%, from R$7.4 million in 2009 to R$21.9 million in 2010. This increase is mainly due to higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, in 2010 as compared to 2009, in line with the overall expansion of our corporate lending unit resulting from the positive economic environment and our US$1.44 billion capitalization completed in December 2010.

Personnel expenses. Our personnel expenses increased 25.8% from R$181.0 million in 2009, of which R$13.2 million corresponded to retention expenses, to R$227.7 million in 2010, of which R$53.3 million corresponded to retention expenses. The increase in our retention expenses is due to the termination of our previous plan and the creation of a new retention plan in connection with our acquisition by our controlling shareholder from UBS AG. The increase in our other personnel expenses was mainly due to an average annual salary adjustment for inflation of 5.9% in 2010 and an increase in the number of employees, from 741 as of December 31, 2009 to 919 as of December 31, 2010. The increase was partially offset by the effect of new compensation practices for new hirings that was implemented in the fourth quarter of 2009, which focused on variable rather than fixed compensation.

Other administrative expenses. Our other administrative expenses increased 60.2%, from R$159.3 million in 2009 to R$255.2 million in 2010. This increase was mainly due to an increase in infrastructure and technology expenses made since the fourth quarter of 2009 in order to support our business expansion.

Tax charges. Our tax charges increased 47.6%, from R$127.6 million in 2009 to R$188.3 million in 2010. The increase in our tax charges was mainly due to an increase in our revenues subject to tax charges resulting from our overall business growth, which was partially offset by an increase in revenues generated by our Cayman Islands branch (which are not taxable in Brazil) as a percentage of our total revenues.

Other operating income. Our other operating income decreased 66.0%, from R$702.4 million in 2009 to R$238.7 million in 2010. In 2009, other operating income consisted mainly of the reversal of provisions for retention obligations and bonuses of R$606.2 million upon the assumption of these obligations by our Partners. In 2010, other operating income was mainly composed of (i) revenues of R$65.1 million generated by forward energy contracts, (ii) the reversal of contingencies provisions of R$99.0 million due to the favorable outcome of commercial claims to which we were a party and (ii) the reversal of provisions of R$31.7 million as a result of a favorable outcome in a judicial proceeding relating to a specific derivative instrument transaction.

Other operating expenses. Our other operating expenses decreased 17.9%, from R$36.3 million in 2009 to R$29.8 million in 2010. This decrease was mainly due to lower exchange rate losses on commissions paid to brokers located abroad coupled with lower expenses generated by the federal tax amnesty program created pursuant to Law No. 11,941/2009, which was partially offset by the amortization of R$8.4 million in goodwill resulting from our Coomex acquisition in October 2010.

Operating Income

As a result of the foregoing, our operating income (i) increased 97.7%, from R$927.3 million in the six months ended June 30, 2011 to R$1,833.4 million in the same period of 2012; (ii) increased 17.8%, from R$1,422.3 million in 2010 to R$1,674.9 million in 2011; and (iii) increased 2.6%, from R$1,385.9 million in 2009 to R$1,422.3 million in 2010.

Non-operating Income (Expenses)

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

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

We had no non-operating income (expenses) in the six months ended June 30, 2012. Our non-operating income totaled R$9.2 million in the six months ended June 30, 2011 primarily due to gains from the sale of our remaining ownership interests in CETIP in April 2011 in the amount of R$8.1 million.

2011 versus 2010

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

2010 versus 2009

Our non-operating income (expenses) varied from an income of R$8.0 million in 2009 to an expense of R$0.4 million in 2010. In 2009, our non-operating income consisted of gains of R$9.8 million from the sale of our ownership interests in the former CETIP in connection with its demutualization.

Income Before Taxation and Profit Sharing

As a result of the foregoing, our income before taxation and profit sharing (i) increased 95.8%, from R$936.5 million in the six months ended June 30, 2011 to R$1,833.4 million in the same period of 2012; (ii) increased 18.4%, from R$1,421.9 million in 2010 to R$1,684.1 million in 2011; and (iii) increased 2.0%, from R$1,393.9 million in 2009 to R$1,421.9 million in 2010.

Income Tax and Social Contribution

Our income tax and social contribution in Brazil are recorded under current or deferred liabilities. Our effective rate was 39.6% and 23.9% for the six months ended June 30, 2011 and 2012, respectively, and 22.0%, 39.3% and 43.1% (excluding deferred tax assets from goodwill) in 2011, 2010 and 2009, respectively. See "—Critical Accounting Policies—Deferred Income Tax and Social Contribution."

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

Our income tax and social contribution in Brazil increased 1.6%, from R$292.3 million in the six months ended June 30, 2011 to R$296.9 million in same period of 2012. This increase is mainly due to a 68.4% increase of our income before tax adjusted by our profit sharing expenses, which was partially offset by (i) a decrease in income tax expenses as a result of R$220.0 million in provisions for payments of interest on equity in the six months ended June 30, 2012 and (ii) increased gains on equity in our associates, which are not subject to income tax charges.

2011 versus 2010

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

2010 versus 2009

Our income tax and social contribution in Brazil decreased 20.1%, from R$477.4 million in 2009 to R$381.6 million in 2010. This decrease was mainly due to the recognition of tax credits of R$87.1 million in April 2010 resulting from the merger of BTG Pactual Investimentos S.A. into us. BTG Pactual Investimentos S.A. recorded goodwill of R$217.9 million resulting from our controlling shareholder's acquisition of us in September 2009.

Statutory Profit Sharing

Statutory profit sharing consists mainly of the discretionary cash bonuses that we distribute to all of our employees, and that are calculated as a percentage of our annual revenues, net of costs and expenses incurred. Our bonus expenses are directly correlated to, among other factors, our overall performance, the performance of our individual business units and our cost efficiency. We determine bonuses in accordance with our profit-sharing program and have calculated such bonuses consistently for the three years ended December 31, 2011 and the six months ended June 30, 2011 and 2012, subject only to slight variations.

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

Our statutory profit sharing increased 197.5%, from R$198.4 million in the six months ended June 30, 2011 to R$590.2 million in same period of 2012. As explained above, our bonus pool is calculated as a percentage of annual revenues, net of costs and expenses and, accordingly, this increase is mainly due to the fact that our revenues growth outpaced the growth in our expenses in the period.

2011 versus 2010

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

2010 versus 2009

Our statutory profit sharing decreased 20.1%, from R$287.2 million in 2009 to R$229.4 million in 2010. This decrease was due to the acquisition of our bank by our controlling shareholder. As a result of this transaction, our bonus expenses were higher than usual in 2009 due to payments made to executives who left our bank following its sale by UBS, and due to certain payments made to attract new executives late in 2009 that did not result in corresponding revenues until 2010.

Non-Controlling Interest

Non-controlling interest consists mainly of the equity not attributable, directly or indirectly, to us, from our subsidiaries Saíra Diamante Empreendimentos Imobiliários S.A., BW Properties S.A. and Recovery do Brasil Consultoria S.A.

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

Our non-controlling interest totaled a loss of R$1.0 million in the six months ended June 30, 2012. In the six months ended June 30, 2012, our non-controlling interest was mainly attributable to Recovery do Brasil Consultoria S.A. In the six months ended June 30, 2011, we did not record any revenue for non-controlling interest.

2011 versus 2010

Our non-controlling interest totaled a loss of R$5.0 million in 2011. In 2011, our non-controlling interest was mainly attributable to BW Properties S.A. (R$1.8 million) and Recovery do Brasil Consultoria S.A. (R$3.0 million). In 2010 and 2009, we did not record any non-controlling interest.

Net Income

As a result of the foregoing, our net income (i) increased 112.1%, from R$445.8 million in the six months ended June 30, 2011 to R$945.4 million in the same period of 2012; (ii) increased 82.2%, from R$810.9 million in 2010 to R$1,477.1 million in 2011; and (iii) increased 28.9%, from R$629.3 million in 2009 to R$810.9 million in 2010.

Interest on Equity

Interest on equity is a substitute dividend payment, which can be treated as a tax deductible expense. It is determined on an annual basis, subject to a 15% withholding tax, and is limited to a maximum of the TJLP as applicable to our net equity. The amount of interest on our shareholders' equity is calculated to minimize income tax expenses, by substituting non-tax-deductible dividends payment for tax-deductible interest on equity payments. As a result of such substitution, we are able to reduce our income tax and social contribution expense for the year by decreasing our taxable income.

Our interest on equity totaled R$220.0 million in the six months ended June 30, 2012, R$319.0 million in 2011 and R$15.4 million in 2010. We did not record interest on equity in 2009 or in the six months ended June 30, 2011. Our interest on equity is presented in our statement of shareholders' equity and is reflected in our income statement, both of which are included in the financial statements included in this Offering Memorandum.

Adjusted Income Statement (Unaudited)

The following table sets forth an overview of our adjusted income statement, which were not prepared in accordance with Brazilian GAAP and materially differ from our income statement:

	For the year ended December 31,			For the six months ended June 30,	
	2009	**2010**	**2011**	**2011**	**2012**
			(in R$ millions)		
Investment banking	215.8	344.0	338.3	198.7	178.8
Corporate lending	63.2	251.1	366.5	187.8	241.6
Sales and trading	560.8	637.8	999.9	345.8	895.9
Asset management	295.7	298.4	443.2	160.7	349.1
Wealth management	49.7	103.5	144.5	69.2	72.3
PanAmericano	–	–	(52.0)	24.1	(118.8)
Principal investments	24.0	201.6	(111.2)	13.4	689.1
Interest and other	(9.2)	147.4	518.1	240.9	267.3
Total revenues	**1,200.0**	**1,983.8**	**2,647.1**	**1,240.5**	**2,575.3**
Bonus	(242.4)	(232.0)	(479.6)	(199.4)	(612.4)
Retention expenses	548.4	(53.3)	(32.5)	(26.8)	(5.9)
Salaries and benefits	(165.1)	(159.9)	(213.2)	(89.5)	(144.5)
Administrative and others	(116.0)	(207.9)	(293.2)	(123.1)	(216.2)
Goodwill amortization	–	(8.4)	(31.2)	(16.8)	(175.4)
Tax charges, other than income tax	(110.6)	(129.5)	(177.0)	(82.7)	(108.1)
Total operating expenses	**(85.7)**	**(791.0)**	**(1,226.7)**	**(538.3)**	**(1,262.5)**
Income before taxes	**1,114.3**	**1,192.8**	**1,420.5**	**702.1**	**1,312.8**
Income tax and social contribution revenue (expense)	(485.0)	(381.9)	56.6	(256.3)	(367.4)
Net income	**629.3**	**810.9**	**1,477.1**	**445.8**	**945.4**

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

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

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

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

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

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

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

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

Our revenues recorded under "interest and other" include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, credited to "interest and other," is in turn deducted as a funding cost directly from our business units' revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments, i.e., sales and trading, commercial lending and principal investments units, as their results are presented in our adjusted income statement net of the interest on our capital, as well as all other costs for obtaining external funding to finance their portfolios. We believe that our discipline of charging internal and external funding costs directly to these business units is one of the most critical components of our risk and liquidity management disciplines, as it allows us to more appropriately monitor and evaluate the financial performance of our various units. Interest and other revenues also include gains and losses resulting from the exchange rate variation, and the corresponding results from hedging (as applicable), of certain assets and liabilities denominated in currencies other than the *real*, including our investments in foreign subsidiaries. For additional information on the revenues or expenses recorded in our adjusted income statement, see "—Our Unaudited Adjusted Income Statement."

Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011

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

	For the six months ended June 30,				
(Unaudited)	**2011**	**% of total**	**2012**	**% of total**	**Variation (%)**
	(in R$ millions, except percentages)				
Investment banking	198.7	16.0%	178.8	6.9%	(10.0)%
Corporate lending	187.8	15.1%	241.6	9.4%	28.7%
Sales and trading	345.8	27.9%	895.9	34.8%	159.1%
Asset management	160.7	13.0%	349.1	13.6%	117.3%
Wealth management	69.2	5.6%	72.3	2.8%	4.4%
PanAmericano	24.1	1.9%	(118.8)	(4.6)%	(593.9)%
Principal investments	13.4	1.1%	689.1	26.8%	5055.6%
Interest and other	240.9	19.4%	267.3	10.4%	11.0%
Total revenues	**1,240.5**	**100%**	**2,575.3**	**100%**	**107.6%**

Our total revenues increased 107.6%, from R$1,240.5 million in the six months ended June 30, 2011 to R$2,575.3 million in the same period of 2012. This increase was mainly due to the following factors:

Investment Banking: Our revenues from investment banking activities decreased 10.0%, from R$198.7 million in the six months ended June 30, 2011 to R$178.8 million in the six months ended June 30, 2012. The decrease in revenues was mainly due to (i) decreased revenues from M&A advisory services due to two significant fees that we recorded only in the six months ended June 30, 2011 in connection with material transactions announced in 2010 (as such fees are generally due at closing) and (ii) a decrease in the aggregate value of equity offerings in which we acted as underwriters, as a result of the overall reduction in the number of transactions in the Brazilian equity market, from R$15.4 billion in the six months ended June 30, 2011 to R$7.9 billion in the same period of 2012. This decrease was partially offset by an increase in revenues from debt offerings in which we participated as underwriters due to an increase in the aggregate value of these transactions, from US$2.7 billion in the six months ended June 30, 2011 to US$3.0 billion in the same period of 2012, as a result of strong levels of activity in the Brazilian debt market.

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

	For the six months ended June 30,	
	2011	2012
	(number of transactions)[1]	
Equity capital markets	9	9
Debt capital markets	25	29
M&A[2]	17	40
Total number of transactions	**51**	**78**
	(in US$ billions)	
Equity capital markets	2.0	0.8
Debt capital markets	2.7	3.0
M&A[2]	9.0	19.0
Total aggregate value[3]	**13.7**	**22.8**

Sources: Dealogic (for equity capital markets and M&A data) and ANBIMA (for debt capital markets data).

(1) While equity and debt capital markets figures consider closed transactions, M&A figures consider announced deals, which typically generate fees upon their subsequent closing.

(2) The market data presented, particularly data related to M&A transactions, may subsequently be revised to take into account transaction delays, cancellations, value revisions and adjustments to transaction value to reflect debt, which is frequently only known following the announcement of the transaction.

(3) Total aggregate value for debt capital markets corresponds only to our share in the syndicate as opposed to the total value of the transactions.

Corporate Lending: Revenues from corporate lending increased 28.7%, from R$187.8 million in the six months ended 2011 to R$241.6 million in the six months ended June 30, 2012. This increase was mainly due to an increase of 109.7% in the average balance of our broader credit portfolio composed mainly of loans, receivables, advances in foreign exchange contracts, marketable securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), from an average balance of R$9.7 billion in the six months ended June 30, 2011 to an average balance of R$20.4 billion in the same period of 2012, which was partially offset by an increase in allowance for loan losses. In addition, revenues from corporate lending were positively impacted in the six months ended June 30, 2011 by gains from our sale of a mortgage credit portfolio.

Sales and Trading: Revenues from sales and trading increased 159.1%, from R$345.8 million in the six months ended June 30, 2011 to R$895.9 million in the six months ended June 30, 2012. This increase was mainly the result of (i) higher revenues from rates activities, mainly due to increased trading volume with clients and market counterparties as well as the convergence of interest rates in Brazil and the resulting positive impact on our inventory of assets and (ii) strong levels of activity from our foreign exchange desk and our brokerage services.

Asset Management: Our revenues from our asset management operations increased 117.3%, from R$160.7 million in the six months ended June 30, 2011 to R$349.1 million in the six months ended June 30, 2012. This increase was mainly due to (i) an increase in our combined AUM and AUA of 31.6%, from R$100.7 billion as of June 30, 2011 to R$132.5 billion as of June 30, 2012 and the resulting positive impact on management fees, reaching R$199.7 million in the six months ended June 30, 2012 compared to R$121.5 million in the six months ended June 30, 2011 and (ii) an increase in performance fees, particularly from our global hedge funds, reaching R$149.4 million in the six months ended June 30, 2012 compared to R$39.2 million in the six months ended June 30, 2011. In the six months ended June 30, 2011, net inflows for our asset management unit amounted to R$8.4 billion compared to R$5.9 billion in the same period of 2012.

Wealth Management: Our revenues from wealth management operations increased 4.4%, from R$69.2 million in the six months ended June 30, 2011 to R$72.3 million in the six months ended June 30, 2012. This increase was mainly due to the 21.4% growth in wealth under management, from R$33.6 billion as of June 30, 2011 to R$40.8 billion as of June 30, 2012 and the resulting positive impact on management fees, which was partially offset by an increase of expenses in the six months ended in June 30, 2012 related to an R$11.2 million loan loss provision that we recorded in the period. In the six months ended June 30, 2011, net inflows for our wealth management unit amounted to R$3.4 billion compared to R$1.8 billion in the same period of 2012.

PanAmericano: We recorded a loss of R$118.8 million from our investment in Banco PanAmericano in the six months ended June 30, 2012 compared to a gain of R$24.1 million in the six months ended June 30, 2011. This variation was mainly due to (i) a R$84.9 million loss from our equity pick-up of Banco PanAmericano's results in the six months ended June 30, 2012 compared to a gain of R$28.8 million in the same period of 2011 and (ii) an increase in our funding expenses charged to this investment, from R$4.7 million in the six months ended June 30, 2011 to R$43.4 million in the same period of 2012. In addition, our funding expenses related to PanAmericano have increased following our R$495.4 million additional capital contribution to Banco PanAmericano in the six months ended June 30, 2012. See "—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE."

Principal Investments: Revenues from principal investments increased from R$13.4 million in the six months ended June 30, 2011 to R$689.1 million in the same period of 2012. This increase was mainly due to (i) higher gains from our global markets activities as a result of overall improvements in market conditions, particularly the interest-rate easing cycle in Brazil and lower interest rates in the United States, which positively impacted the U.S. mortgage market, (ii) revenues from our equities developed markets desk, which we launched in the six months ended June 30, 2011 and (iii) gains from our real estate activities, mainly due to our proportional share of the profits of BR Properties in the amount of R$315.8 million, net of the provision for devaluation in the amount of R$347.2 million to reflect the probable realizable value of the shares.

Interest and Other: Our revenues recorded under "interest and other" increased 11.0%, from R$240.9 million in the six months ended June 30, 2011 to R$267.3 million in the six months ended June 30, 2012. This increase was mainly due to (i) an increase in interest on our own capital from R$204.9 million in the six months ended June 30, 2011 to R$211.5 million in the six months ended June 30, 2012, resulting from our capital increase in connection with our initial public offering on April 30, 2012 and (ii) the temporary effect of positive mark-to-market accounting of economic hedging instruments in the six months ended June 30, 2012. This increase was partially offset by a decrease in the SELIC rate from 12.25% as of June 30, 2011 to 8.55% as of June 30, 2012.

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

	For the six months ended June 30,				
	2011	**% of total**	**2012**	**% of total**	**Variation (%)**
	(Unaudited - in R$ millions, except percentages)				
Bonus	(199.4)	37.0%	(612.4)	48.5%	207.1%
Retention expenses	(26.8)	5.0%	(5.9)	0.5%	(78.1)%
Salaries and benefits	(89.5)	16.6%	(144.5)	11.4%	61.4%
Administrative and others	(123.1)	22.9%	(216.2)	17.1%	75.7%
Goodwill amortization	(16.8)	3.1%	(175.4)	13.9%	947.3%
Tax charges, other than income tax	(82.7)	15.4%	(108.1)	8.6%	30.6%
Total operating expenses	**(538.3)**	**100%**	**(1,262.5)**	**100%**	**134.5%**

Our total operating expenses increased 134.5%, from R$538.3 million in the six months ended June 30, 2011 to R$1,262.5 million in the six months ended June 30, 2012. This increase was mainly due to the following factors:

Bonus: Our bonus expenses increased 207.1%, from R$199.4 million in the six months ended June 30, 2011 to R$612.4 million in the six months ended June 30, 2012. Our bonuses are determined in accordance with our profit-sharing program, and are calculated as a percentage of our adjusted net revenue. Our adjusted net revenue consists of our total revenues from business units (excluding interest and other revenues) deducted by salaries and benefits and administrative and other expenses. Accordingly, the increase of our bonus expenses in the six months ended June 30, 2012 as compared with the six months ended June 30, 2011 was due to a higher increase in revenues from business units as compared to the increase of the corresponding expenses.

Retention Expenses: Our retention expenses decreased 78.1%, from R$26.8 million in the six months ended June 30, 2011 to R$5.9 million in the six months ended June 30, 2012. This decrease in our retention expenses was due to the phasing-out of our retention program, which terminated in February 2012.

Salaries and Benefits: Our expenses related to salaries and benefits increased 61.4%, from R$89.5 million in the six months ended June 30, 2011 to R$144.5 million in same period of 2012. This increase was due to an average annual salary adjustment of 9.0% for our employees pursuant to the terms of the annual union agreement reached in September 2011, coupled with a 34.6% increase in the number of employees, from 1,065 as of June 30, 2011 to 1,434 as of June 30, 2012. This increase in the number of employees is associated with the organic growth of our business as well as the transfer of 149 employees from BTGI to us in September 2011 as part of a corporate restructuring of the BTG Pactual Group. See "—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations —Corporate Restructuring."

Administrative and Others: Our administrative and others expenses increased 75.7%, from R$123.1 million in the six months ended June 30, 2011 to R$216.2 million in same period of 2012. This increase was mainly due to expenses incurred in connection with our initial public offering as well as expenses, such as rent and travel, related to our international activities in London, New York and Hong Kong. Such activities were transferred to us from BTGI as part of the corporate restructuring of the BTG Pactual Group in September 2011. See "—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations —Corporate Restructuring."

Goodwill Amortization: Our goodwill amortization expenses increased from R$16.8 million in the six months ended June 30, 2011 to R$175.4 million in same period of 2012. We periodically review the goodwill balances on our balance sheet, and may decide, as was the case in the six months ended June 30, 2012, to accelerate the amortization ratio for certain or all of the goodwill booked. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Income Statement—Other operating expenses."

Tax Charges, Other Than Income Tax: Our tax charges, other than income tax increased 30.6%, from R$82.7 million in the six months ended June 30, 2011 to R$108.1 million in same period of 2012. The increase in our tax charges was mainly due to a 107.6% increase in our revenues, part of which were generated by our Cayman Islands branch (which are not taxable in Brazil) and also from our equity pick-up in associates (which are also not subject to tax charges). Our tax rate decreased from 6.7% in the six months ended June 30, 2011 to 4.2% in the six months ended June 30, 2012.

Income Before Taxes

As a result of the foregoing, our income before taxes increased 87.0%, from R$702.1 million in the six months ended June 30, 2011 to R$1,312.8 million in the same period of 2012.

Income Tax and Social Contribution Revenue (Expense)

Our income tax and social contribution revenue (expense) corresponds to current and deferred taxes. Our income tax and social contribution revenue (expense) increased 43.3%, from R$256.3 million in the six months ended June 30, 2011 to R$367.4 million in same period of 2012. This increase was mainly due to the 87.0% increase of our income before taxes, which was partially offset by a decrease in tax expenses resulting from (i) our R$220.0 million payment of interest on equity in the six months ended June 30, 2012 and (ii) gains from our equity pick-up from associates, which are not subject to income tax charges. Our effective tax rate, including current and deferred taxes, was 36.5% in the first six months of 2011 and 28.0% in the first six months of 2012. See "—Critical Accounting Policies – Deferred Income Tax and Social Contribution."

Net Income

As a result of the foregoing, our net income increased 112.1%, from R$445.8 million in the six months ended June 30, 2011 to R$945.5 million in same period of 2012, representing a net margin of 35.9% and 36.7%, respectively, relative to our total adjusted revenues.

2011 versus 2010

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

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

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

Investment Banking: Our revenues from investment banking activities slightly decreased 1.7%, from R$344.0 million in 2010 to R$338.3 million in 2011. The decrease in revenues was mainly due to (i) a decrease in the aggregate value of equity offerings in which we acted as underwriters as a result of adverse market conditions, from R$143.1 billion in 2010 to R$11.4 billion in 2011 and (ii) a decrease in revenues from debt offerings in which we acted as underwriters. In 2010, the total volume of equity offerings was impacted by Petrobras' R$120.4 billion follow-on offering, which had 14 bookrunners and a relatively low pool fee given its size and the fact that a substantial portion of the shares issued in the offering were purchased by the Brazilian government, which purchases were not subject to underwriting commissions or fees. Excluding Petrobras' offering, the total volume of equity offerings in which we participated decreased from R$22.9 billion in 2010 to R$11.4 billion in 2011, from a total of 14 transactions in 2010 to 10 transactions in 2011. However, the aggregate value in 2010 reflects the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee. Although the volume of debt offerings in which we acted as underwriters increased during 2011, we did not record a corresponding gain for 2011 due to the fact that some of these transactions were executed by an offshore subsidiary within the BTG Pactual Group, which, until the corporate restructuring of the BTG Pactual Group in September 2011, was a subsidiary of BTGI. This decrease was partially offset by increased revenues from M&A advisory services fees in connection with material transactions announced in 2010 that settled in the three months ended March 31, 2011 (as such fees are generally due at closing) as well as by transactions that recorded higher than average fees.

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

	For the year ended December 31,	
	2010	2011
	(number of transactions)(1)	
Equity capital markets(2)	15	10
Debt capital markets(2)	32	58
M&A(2)	58	56
Total number of transactions	**105**	**124**
	(in R$ billions)	
Equity capital markets(2)	143.1	11.4
Debt capital markets(2)(3)	6.1	10.5
M&A(2)	61.7	41.0
Total aggregate value(3)	**210.9**	**62.8**

Sources: CVM, ANBIMA, Thomson Financial and Banco BTG Pactual

(1) While equity and debt capital markets figures consider closed transactions, M&A figures consider announced deals, which typically generate fees upon their subsequent closing.

(2) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and Petrobras' R$120.4 billion follow-on equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

(3) Total aggregate value for debt capital markets corresponds only to our share in the syndicate as opposed to the total value of the transactions.

Corporate Lending: Revenues from corporate lending increased 45.9%, from R$251.1 million in 2010 to R$366.5 million in 2011. This increase was mainly due to (i) an increase of 185.3% in the average balance of our broader credit portfolio composed mainly of loans, receivables, advances in foreign exchange contracts, marketable securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), from an average balance of R$5,019.7 million in 2010 to an average balance of R$15,997.6 million in 2011, (ii) the positive impact of our US$1.44 billion capitalization completed in December 2010, which increased our leverage capacity. This revenues increase was partially offset by (i) the fact that the majority of our credit portfolio increase was directed to high grade clients, which pay lower yields, and (ii) an increase in allowance for loan losses, due to reversals occurred in 2010 due to the improvement of the global economic scenario after the financial crisis at the end of 2009, particularly in Brazil. See "—Our Income Statement—Gross Financial Income—2011 versus 2010—Financial Expenses—Allowance for loan losses and other receivables."

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

Asset Management: Our revenues from our asset management operations increased 48.5%, from R$298.4 million in 2010 to R$443.2 million in 2011. This increase was mainly due to (i) an increase in our AUM of 31.3%, from R$91.5 billion as of December 31, 2010, with net annual inflows of R$11.6 billion, to R$130.3 billion as of December 31, 2011, with net annual inflows of R$17.8 billion, and the resulting positive impact on management fees in all our funds, reaching R$301.5 million in 2011 compared to R$184.2 million in 2010 and (ii) an increase in performance fees, mainly from our fixed income, equities and specialists funds (private equity and real estate funds), reaching R$141.7 million in 2011 compared to R$114.2 million in 2010.

Wealth Management: Our revenues from wealth management operations increased 39.6%, from R$103.5 million in 2010 to R$144.5 million in 2011. This increase was mainly due to the 24.6% growth in wealth under management, from R$31.2 billion as of December 31, 2010, with net inflow of R$8.3 billion, to R$38.9 billion as of December 31, 2011, with net inflow of R$8.8 billion. We were also positively impacted by (i) a shift in investment funds products by our clients, with net new money flowing to products with higher return on assets, especially in the offshore space, (ii) concentrated sales of proprietary fixed income domestic securities where the return on assets is also higher for the unit, (iii) higher fees on an increased number and volume of credit transactions; and (iv) higher financial advisory (M&A) fees.

PanAmericano: PanAmericano recorded an expense of approximately R$52.2 million in 2011, which consisted of our equity pick-up of Banco PanAmericano and funding expenses allocated to this business unit. We acquired our co-controlling interest in Banco PanAmericano in May 2011, and accordingly had no results from Banco PanAmericano in 2010.

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

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

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

	For the year ended December 31,				
	2010	**% of total**	**2011**	**% of total**	**Variation (%)**
	(Unaudited - in R$ millions, except percentages)				
Bonus	(232.0)	29.3%	(479.6)	39.1%	106.7%
Retention expenses	(53.3)	6.7%	(32.5)	2.6%	(39.0)%
Salaries and benefits	(159.9)	20.2%	(213.2)	17.4%	33.3%
Administrative and others	(207.9)	26.3%	(293.2)	23.9%	41.0%
Goodwill amortization	(8.4)	1.1%	(31.2)	2.5%	271.4%
Tax charges, other than income tax	(129.5)	16.4%	(177.0)	14.4%	36.7%
Total operating expenses	**(791.0)**	**100.0%**	**(1,226.7)**	**100.0%**	**55.1%**

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

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

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

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

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

Goodwill Amortization: Our goodwill amortization expenses increased 272.1%, from R$8.4 million in 2010 to R$31.2 million in 2011, as a result of our acquisition of Coomex in October 2010 and the amortization of R$2.8 million of goodwill on a monthly basis following the acquisition. In 2011, we recognized monthly goodwill amortization charges relating to Coomex of R$2.8 million until August 2011, which was reduced to R$1.5 million per month from September 2011 onwards. In addition, we amortized goodwill relating to the acquisitions of Recovery do Brasil Consultoria S.A. and Vivere Soluções e Serviços S.A. from March and October 2011, respectively, for a total of R$3.3 million.

Tax Charges, Other Than Income Tax: Our tax charges, other than income tax increased 14.4%, from R$129.5 million in 2010 to R$177.0 million in 2011. The increase in our tax charges was mainly due to a 33.4% increase in our revenues, and from the decrease in revenues generated by our Cayman Islands branch (which are not taxable in Brazil). Our tax rate maintained relatively stable at 6.7% in 2011, compared to 6.5% in 2010.

Income Before Taxes

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

Income Tax and Social Contribution Revenue (Expense)

Our income tax and social contribution revenue (expense) correspond to current and deferred taxes. Our income tax and social contribution revenue (expense) varied from an expense of R$381.9 million in 2010 to a revenue of R$56.6 million in 2011, mainly due to (i) a decrease of income tax expenses as a result of payment of interest on equity in the amount of R$319.0 million in 2011, and (ii) the recognition of tax credits of R$481.4 million in 2011 resulting from our merger with the investment vehicle used by the members of the Consortium to acquire equity interests in December 2010. Such entity had previously recorded goodwill of R$1,203.4 million in connection with such acquisition. Our effective income tax rate, including current and deferred taxes, was 32.0% in 2010 and (15.5)% in 2011. See "—Critical Accounting Policies – Deferred Income Tax and Social Contribution."

Net Income

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

2010 versus 2009

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

	For the year ended December 31,				
	2009	% of total	2010	% of total	Variation (%)
	(Unaudited – in R$ millions, except percentages)				
Investment banking	215.8	18.0%	344.0	17.3%	59.4%
Corporate lending	63.2	5.3%	251.1	12.7%	297.3%
Sales and trading	560.8	46.7%	637.8	32.2%	13.7%
Asset management	295.7	24.6%	298.4	15.0%	0.9%
Wealth management	49.7	4.1%	103.5	5.2%	108.2%
PanAmericano	–	–	–	–	–
Principal investments	24.0	2.0%	201.6	10.2%	740.0%
Interest and other	(9.2)	0.8%	147.4	7.4%	1,702.2%
Total revenues	**1,200.0**	**100.0%**	**1,983.8**	**100.0%**	**65.3%**

Our total revenues increased 65.3%, from R$1,200.0 million in 2009 to R$1,983.8 million in 2010. This increase was mainly due to the following factors:

Investment Banking: Our revenues from investment banking activities increased 59.4%, from R$215.8 million in 2009 to R$344.0 million in 2010. The increase in revenue resulted mainly from an increase in deal flow in 2010 in all three segments of our investment banking unit. The number of debt deals in which we acted as underwriters significantly increased in 2010 as a result of our efforts to increase our performance in this segment, including by hiring a team focused on international offerings. Our revenues generated by underwriting equity capital offerings also increased significantly due to the increase in number and volume of transactions. Our M&A advisory services fees also increased substantially due to the higher number of transactions, which increased from 10 in 2009 to 58 in 2010, and the volume of such transactions, which increased from R$23.8 billion in 2009 to R$61.7 billion in 2010, thus allowing us to rank first in the Brazilian M&A transaction ranking. In addition, we acted as an underwriter in the Petrobras equity offering in 2010, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee due to low fees given transaction size and the fact that a substantial portion of the shares issued in the offering were purchased by the Brazilian government, which did not pay commissions or fees to the underwriters.

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

	For the year ended December 31,	
	2009	2010
	(number of transactions)(1)	
Equity capital markets(2)	11	15
Debt capital markets(2)	24	32
M&A(2)	10	58
Total number of transactions	**45**	**105**
	(in R$ billions)	
Equity capital markets(2)	35.5	143.1
Debt capital markets(2)(3)	2.4	6.1
M&A(2)	23.8	61.7
Total aggregate value(3)	**61.7**	**210.9**

Sources: CVM, ANBIMA, Thomson Reuters and Banco BTG Pactual.

(1) While equity and debt capital markets figures consider closed transactions, M&A figures consider announced deals, which typically generate fees upon their subsequent closing.

(2) Data for 2009 and 2010 includes transactions in which we participated but that were credited to UBS AG. In addition, data for 2010 includes the Petrobras' R$120.4 billion follow-on equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

(3) Total aggregate value for Debt Capital Markets corresponds only to our share in the syndicate as opposed to the total value of the transactions.

Corporate Lending: Revenues from corporate lending increased 297.3%, from R$63.2 million in 2009 to R$251.1 million in 2010. This increase was mainly due to an increase of 134.1% in our broader credit portfolio composed mainly of loans, receivables, advances in foreign exchange contracts, marketable securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), from an average balance of R$2,144.3 million in 2009 to an average balance of R$5,019.7 million in 2010. Also, our expenses of allowance for loan losses related to such portfolio was significantly higher in 2009 as compared to 2010 following recovery of the global economic crisis in 2010.

Sales and Trading: Revenues from sales and trading increased 13.7%, from R$560.8 million in 2009 to R$637.8 million in 2010. This increase was mainly due to higher revenues from our rates and market making activities, as a result of successful strategies within our Latin American rates desk. In addition, our energy trading desk commenced operations in October 2010, when Coomex was acquired, and generated gains in 2010. This increase was partially offset by a slight decrease in our revenues from equity sales and trading in 2010. In 2009, we had large gains that were spurred by improved general economic conditions in the markets in which we operated in that year, particularly the substantial volatility in the Brazilian equity markets, while in 2010, market volatility was lower and the BM&FBOVESPA index remained relatively stable.

Asset Management: Our revenues from our asset management operations remained relatively stable, increasing slightly from R$295.7 million in 2009 to R$298.4 million in 2010. This slight increase was mainly due to an increase in our gross performance fees in 2010 of R$14.5 million, reaching R$114.2 million in 2010 compared to R$99.8 million in 2009, mainly due to higher performance fees from our global hedge funds, which were partially offset by lower results from our specialist funds (merchant banking and real estate) in 2010 compared to 2009. This increase was partially offset by a decrease in our management fees, from R$195.9 million in 2009 to R$184.2 million in 2010, due in part to revenue sharing from our PCP fund with a third party. Although our AUM grew 24.3%, from R$73.7 billion as of December 31, 2009, with net outflow of R$4.3 billion, to R$91.5 billion as of December 31, 2010, with net inflow of R$11.6 billion, resulting in a positive impact on our management fees, this increase was offset by (i) revenue sharing from our PCP fund with a third party, which decreased our management fees and (ii) lower management fees from our global hedge funds as a consequence of negative flows in the end of 2009.

Wealth Management: Our revenues from wealth management operations increased 108.1%, from R$49.7 million in 2009 to R$103.5 million in 2010. This increase was mainly due to (i) our clients' portfolios moving from a concentration in conservative asset classes and products during 2009 (which generated significantly lower fees) to more aggressive products in 2010 (which generated higher fees) and (ii) the 26.8% growth in our WUM, from R$24.6 billion as of December 31, 2009, with net inflow of R$4.2 billion, to R$31.2 billion as of December 31, 2010, with net inflow of R$8.3 billion.

Principal Investments: Revenues from principal investments increased 740.0%, from R$24.0 million in 2009 to R$201.6 million in 2010. In early 2010, we commenced new trading activities as part of our principal investment business unit following the conclusion of our acquisition from UBS in September 2009, resulting in the increased balance of our principal investments portfolio. In 2010, our revenues from principal investments consisted primarily of gains from all of our new strategies, particularly emerging markets credit, Europe Rates and US Mortgages.

Interest and Other: Our results recorded under "interest and other" varied from an expense of R$9.2 million in 2009 to revenues of R$147.4 million in 2010. This increase in revenues was mainly due to (i) a decrease in exchange rate losses on our dollar denominated investment in BTG Pactual Banking Limited from losses of R$128.6 million in 2009, as a result of the 33.8% appreciation of the *real* against the U.S. dollar in 2009, to losses of R$31.7 million in 2010, as a result of the 3.5% appreciation of the *real* against the U.S. dollar in 2010 and (ii) an increase in interest on our capital from R$158.0 million in 2009 to R$171.6 million in 2010 due to an increase in the SELIC rate from 8.75% as of December 31, 2009 to 10.75% as of December 2010.

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

	For the year ended December 31,				
	2009	% of total	2010	% of total	Variation (%)
	(Unaudited – in R$ millions, except percentages)				
Bonus	(242.4)	282.7%	(232.0)	29.3%	(4.3)%
Retention expenses	548.4	639.7%	(53.3)	6.7%	(109.7)%
Salaries and benefits	(165.1)	192.6%	(159.9)	20.2%	(3.1)%
Administrative and others	(116.0)	135.3%	(207.9)	26.3%	79.2%
Goodwill amortization	–	–	(8.4)	1.1%	–
Tax charges, other than income tax	(110.6)	129.0%	(129.5)	16.4%	17.1%
Total operating expenses	**(85.7)**	**100.0%**	**(791.0)**	**100.0%**	**822.6%**

Our total operating expenses increased 822.6%, from R$85.7 million in 2009 to R$791.0 million in 2010. This increase was mainly due to the following factors:

Bonus: Our bonus expenses decreased slightly, from R$242.4 million in 2009 to R$232.0 million in 2010. Our bonuses are determined in accordance with our profit-sharing program, and are calculated as a percentage of our adjusted net revenue. The decrease of our bonus expenses in 2010 as compared with 2009 was due to the reversal, in 2010, of excess bonus provisions booked in 2009.

Retention Expenses: Our retention expenses decreased 109.7%, from a R$548.4 million revenue in 2009 to a R$53.3 million expense in 2010. In 2009, we had an extraordinary reversal of provisions for retention obligations of R$548.4 million. The retention plan was established to the benefit of certain of our employees, many of them also Partners, in connection with its acquisition by UBS AG in 2006. In 2009, following the acquisition of Banco UBS Pactual by our controlling shareholder, a significant portion of the payments still due under the retention plan were ultimately waived by the majority of the UBS AG employees who were beneficiaries of the plan and became our Partners as a result of the acquisition. This waiver caused all such retention expenses to be cancelled. The remaining portion of the retention plan expired in February 2012, and we have no plans to establish other retention plans going forward.

Salaries and Benefits: Our salaries and benefits costs and expenses decreased 4.3%, from R$165.1 million in 2009 to R$159.9 million in 2010. This decrease was mainly due to the salary reduction of our statutory directors implemented following the conclusion of our acquisition from UBS in September 2009. This decrease was partially offset by (i) an increase in the number of our employees, from 741 in 2009 to 919 in 2010 and (ii) an inflation adjustment in our salary base of 5.9% in 2010.

Administrative & Others: Our administrative and others expenses increased 79.2%, from R$116.0 million in 2009 to R$207.9 million in 2010. This increase was mainly due to an increase in infrastructure and technology expenses made since the fourth quarter of 2009 in order to support our business expansion following the acquisition of Banco UBS Pactual by our controlling shareholder.

Goodwill Amortization: Our goodwill amortization expenses were R$8.4 million in 2010. We have not concluded any acquisition that generated any goodwill in 2009. In October 2010, we concluded our acquisition of Coomex, and accordingly, we started to amortize R$2.8 million of goodwill on a monthly basis from October 2010 onwards.

Tax Charges, Other Than Income Tax: Our tax charges, other than income tax increased 17.1%, from R$110.6 million in 2009 to R$129.5 million in 2010. The increase in our tax charges was mainly due to a 65.3% increase in our revenues, part of which were generated by our Cayman Islands branch (which are not taxable in Brazil). Our tax rate decreased from 9.2% in 2009 to 6.5% in 2010.

Income Before Taxes

As a result of the foregoing, our income before taxes increased 7.1%, from R$1,114.3 million in 2009 to R$1,192.81 million in 2010.

Income Tax and Social Contribution Revenue (Expense)

Our income and social contribution revenue (expense) decreased 21.3%, from R$485.0 million in 2009 to R$381.9 million in 2010. This decrease was mainly due to the recognition of tax credits of R$87.1 million in April 2010 resulting from the merger of BTG Pactual Investimentos S.A. into us. BTG Pactual Investimentos S.A. recorded goodwill of R$217.9 million resulting from our controlling shareholder's acquisition of us in September 2009.

Net Income

As a result of the foregoing, our net income increased 28.9%, from R$629.3 million in 2009 to R$810.9 million in 2010, representing a net margin of 52.4% and 40.9%, respectively, relative to our adjusted revenues.

Equity Capital

We maintain a level and composition of equity capital that we consider sufficient to conduct our operations under well-capitalized standards. We manage our capital primarily through equity issuances and subordinated debt issuances. We also manage our capital requirements by establishing limits to our business units on the capital they deploy in their operations. Our definition of capital generally follows the principles and guidelines established by the Basel Committee on Banking Supervision.

Our equity capital was materially enhanced as a result of (i) the issuance of US$1.44 billion of equity to the members of the Consortium and the Participating Partners in December 2010 and (ii) R$2,070.0 million in equity in our initial public offering in April 2012. Our BIS capital ratio as of June 30, 2012 reflects certain changes in the methodology for computing the market risk component of the Basel index (as per the implementation of new requirements under the Basel Capital Accord known as Basel 2.5). Basel 2.5 is a complex package of international rules that imposes higher capital charges on banks for the market risks they run in their trading books.

We allocate capital to our business units, and establish limits for their operations, based on a comprehensive framework of capital, balance sheet and risk monitoring and management. Historically, the BTG

Pactual Group has been able to maintain adequate capitalization levels, which significantly surpass the levels of capital that would typically be required to support an operation such as ours, and significantly surpasses the average capitalization levels of our industry peers. Also, we believe that, due to our partnership structure – which facilitates the decision making process, since we have senior partners in charge of the management of our businesses – we are able to manage our capital requirements with agility and efficiency.

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

As of June 30, 2012, our total shareholders' equity was R$8,953.5 million compared with total shareholders' equity of R$6,339.8 million as of December 31, 2011.

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

The regulations imposed by the Central Bank of Brazil typically follow the guidance proposed by the Basel Committee on Banking Supervision. Brazilian financial institutions are still required to comply with standardized capital requirements with respect to their market, credit and operational risks. The adoption of advanced methods of calculation of capital requirements provided under the Basel II regulatory capital framework are expected to be gradually adopted by financial institutions that elect to comply with such standards, which must be submitted to validation by the Central Bank of Brazil.

The requirements imposed by the Central Bank and the CMN differ from the Basel Capital Agreement in a few aspects. Among other differences, the Central Bank and the CMN:

- establish a minimum capital ratio of 11%, instead of 8% typically adopted under international standards; and

- determine capital requirements based on the balance sheet according to Brazilian GAAP. Brazilian GAAP differs from IFRS due, among other reasons, to (a) the use of accrual principle, (b) the adoption of trade date convention, and (c) a limited permission to adopt netting conventions.

Adjusted shareholders' equity is considered for the determination of operating limits of Brazilian financial institutions, and is represented by the sum of the Tier I equity and Tier II equity.

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

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

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

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

In February 2011, the Central Bank issued the expected time line for gradual implementation of the Basel III regulatory frameworks and expects the implantation of such agreement by Brazilian financial institutions from 2011 to 2017. The changes relate to:

- Components of Tier I and Tier II;
- New ratios for Tier I and Tier II;
- Equity underpinning reduction for intangible assets;
- Conservative and countercyclical capital buffer;
- Liquidity coverage ratio; and
- Leverage ratio.

Consolidated Capital Ratios

The following table sets forth additional information on our capital ratios as of December 31, 2011 and June 30, 2012:

(Unaudited for June 30, 2012)	**December 31, 2011**	**June 30, 2012**
	(in R$ millions)	
Reference Shareholders' Equity (PR)	**8,430.9**	**12,338.5**
Shareholders' equity – Tier 1	6,331.0	9,105.5
Shareholders' equity – Tier 2	3,165.5	4,117.2
Deductions from the Reference Shareholders' Equity	(1,065.6)	(884.3)
Required Reference Shareholders' Equity (PRE)	**5,250.9**	**7,355.1**
Credit risk	3,416.0	4,008.1
Market risk	1,553.4	3,121.2
Operating risk	281.4	225.8
Exceeding Required Reference Equity: (PR-PRE)	**3,180.0**	**4,983.3**
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	17.66%	18.45%

Subsidiary Capital Requirements

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

Through our subsidiaries in the United States, we are subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and the SEC. Through BTG Pactual Europe, one of our quoting entities authorized by the FSA to provide investment services in the United Kingdom, we are additionally subject to the supervision of the FSA and related regulatory requirements in the United Kingdom. See "Risk Factors – The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business," "Regulatory Overview – Regulation in the United States" and "Regulatory Overview – Regulation in the United Kingdom."

Liquidity

Liquidity is essential to our business. Liquidity management is the set of policies and procedures we put in place to ensure that we always have access to sufficient cash to meet our obligations, under normal circumstances and under severe market stress. The most important principle of our liquidity management framework is the maintenance of a strong cash position – our liquidity buffer – at all times. Our liquidity buffer is calculated to be sufficient to run our operations for a minimum of 90 days assuming that we do not obtain new funding in the period. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions, based on the imposition of constrains on our lending operations and on the reduction of our exposure and the sell-off of liquid instruments. We have recently enhanced our liquidity profile through the issuance of R$4.0 billion in local subordinated notes with an average maturity of 7.8 years and the issuance under the Programme of US$500 million in senior notes due 2016 at a rate of 4.875%. In addition, in December 2011, we issued, through our Cayman Islands branch, three additional series of zero-coupon senior notes through the Programme to a single investor in the total principal amount of US$106.0 million. The maturity date for these notes is one year from the date of issuance. We have also issued senior notes denominated in Colombian pesos under the Programme in September, 2012, in the amount of US$200 million (equivalent in Colombian pesos). We intend to continue our funding activities by accessing funding from diversified sources in Brazil and abroad, issuing debt instruments and deposits in different markets, currencies and tenors. As of June 30, 2012, we had more than 200 depositors, and our top 10 depositors represented less than 29.0% of our total funding base. We are subject to liquidity regulatory requirements imposed by the Central Bank, which includes the monitoring of our liquidity position, of our liquidity stress scenarios, and of our liquidity contingency plan. We are currently the only entity within the BTG Pactual Group that is permitted to take deposits, directly and through its branches, (including interbank, demand and time deposits) from clients or counterparties.

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

(Unaudited for June 30, 2012)	As of December 31, 2009	2010	2011	As of June 30, 2012
	(in R$ millions)			
Deposits	5,522.7	10,573.5	14,211.1	16,371.5
Demand deposits	1,278.0	2,312.9	1,574.3	1,427.0
Interbank deposits	217.8	338.9	576.4	823.7
Time deposits	4,020.0	7,908.9	12,060.4	14,120.6
Other deposits	6.9	12.8	–	–
Open market funding	9,056.6	41,188.9	39,061.1	57,279.7
Funds from securities issued and accepted	330.2	1,305.5	3,774.6	5,012.1
Loans and onlending	61.3	155.3	919.7	1,407.3
Subordinated debts	–	–	4,158.3	4,486.3
Total	**14,970.8**	**53,223.2**	**62,124.8**	**84,556.9**

After June 30, 2012, we continued to incur indebtedness, mainly as a result of an increase in our open market funding, which is directly linked to corresponding increases in our open market investments and marketable securities subject to repurchase agreements.

There have been no material changes in our financial condition as from June 30, 2012, except as disclosed in this Offering Memorandum.

Demand deposits

We do not provide commercial banking services to our clients other than through our PanAmericano business unit. The cash balances maintained by our clients in demand deposits are seasonal, and typically result from the settlement of securities in connection with our sales and trading businesses. The volume of our demand deposits tend to vary, and are generally linked to the volume of transactions we settle for our clients. They can also be impacted by regulatory measures, or by certain taxes imposed on financial transactions, such as the IOF tax, that can cause our clients to delay certain cash transferences abroad. Demand deposits also include balances of money market deposits maintained by our clients with our Cayman Islands branch. As of June 30, 2012, the balance of our demand deposits from local and international clients totaled R$1,427.0 million, compared to R$1,574.3 million as of December 31, 2011.

Interbank deposits

We receive interbank loans from Brazilian financial institutions in open market operations. The balance of our interbank deposits increased, from R$576.4 million as of December 31, 2011 to R$823.7 million as of June 30, 2012.

Time deposits

A significant portion of our funding is in the form of time deposits. Usually, our depositors are Brazilian companies, pension funds and HNWI. Most of our CDBs bear an interest rate equivalent to the CDI plus a spread. Our balance of time deposits increased 17.1% from R$12,060.4 million at December 31, 2011 to R$14,120.6 million at June 30, 2012. This increase was mainly due to our continuous effort to maintain a high level of market discipline and transparency, pursuant to which our clients and counterparties are informed about our performance and our strategy, and by improvements in our ratings.

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

(Unaudited for June 30, 2012)	As of December 31, 2009	2010	2011	As of June 30, 2012
	(in R$ millions)			
Up to 90 days	535.9	1,050.7	3,180.7	5,622.9
From 91 to 360 days	2,235.9	5,699.4	6,184.5	6,056.7
From 1 to 3 years	1,235.6	987.1	1,553.5	1,253.9
Over 3 years	12.6	171.7	1,141.5	1,186.9
Total	**4,020.0**	**7,908.9**	**12,060.4**	**14,120.6**

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

(Unaudited for June 30, 2012)	As of December 31, 2009	2010	2011	As of June 30, 2012
	(in R$ millions)			
Total number depositors	198	245	265	314
Largest depositor	488.2	721.6	841.2	1,119.0
10 largest depositors	2,183.2	3,519.5	4,874.5	5,844.5
20 largest depositors	2,809.8	4,715.7	7,258.8	8,163.1
50 largest depositors	3,580.6	6,384.3	9,937.8	11,304.3
100 largest depositors	3,924.5	7,433.9	11,469.4	12,963.3

Funds from securities issued and accepted

Our balance from securities issued and accepted increased from R$3,774.6 million as of December 31, 2011 to R$5,012.1 million as of June 30, 2012. The increase is in line with our distribution efforts in local and international markets, and we believe it is an important step to support the overall growth of our business. In 2011, we issued various notes both in Brazil and abroad, as follows:

- In July 2011, we issued, through our Cayman Islands branch, a series of senior notes under the Programme in the total principal amount of US$0.5 billion. The maturity date of these notes is July 8, 2016;

- In December 2011, we issued a series of notes in the total principal amount of R$0.6 billion. The average maturity date of the notes is 7.0 years, and the first maturity date is June, 2017;

- In December 2011, we issued, through our Cayman Islands branch, three series of senior notes under the Programme to a single investor in the total principal amount of US$106.0 million. The maturity date for these notes is one year from the date of issuance; and

- In September 2012, we issued senior notes denominated in Colombian pesos under the Programme in the amount of US$200 million (equivalent in Colombian pesos).

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

(Unaudited for June 30, 2012)	As of December 31, 2009	2010	2011	As of June 30, 2012
		(in R$ millions)		
Real estate credit bills/agribusiness[1]	330.2	1,299.5	2,625.0	1,835.4
Medium term notes, credit-linked notes and financial bills	–	6.0	1,149.6	3,176.7
Total	**330.2**	**1,305.5**	**3,774.6**	**5,012.1**

(1) Real estate credit bills/agribusiness are real estate notes and agribusiness notes, respectively.

(2) Consist of subordinated notes issued by financial institutions.

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

(Unaudited)	As of June 30, 2012
	(in R$ millions)
Up to 90 days	847.1
From 91 to 365 days	1,290.9
From 1 to 3 years	1,123.3
Over 3 years	1,750.7
Total funds	**5,012.1**

Subordinated indebtedness

Our balance of subordinated indebtedness increased from R$4,158.3 million as of December 31, 2011 to R$4,486.3 million as of June 30, 2012. In April 2011, we issued a series of subordinated notes in Brazil in the total principal amount of R$4.0 billion. The average maturity date of the notes is 7.8 years, and the first maturity date is October 2016.

Open market funding

We fund a significant portion of our portfolio through secured funding arrangements, such as repurchase agreements. We maintain relationships with several market counterparties, such as financial institutions, prime brokers, institutional investors, asset managers, clearing agents, depositaries, central banks or other monetary authorities, through which we may obtain secured funding by placing significant portions of our portfolio of securities, especially government bonds, as collateral. Our secured funding transactions are an important component of our overall funding strategy in the context of the liquidity management. The total balance of repurchase transactions vary in line with changes in the amount of our total assets, and especially of our securities portfolio. We also maintain a balance of repurchase agreements in connection with reverse repurchase transactions (i.e., our match portfolio), through which we allow clients, such as our investment funds, to access money markets for overnight or term investments collateralized by prime, highly liquid government securities. At December 31, 2011 and June 30, 2012, our own portfolio of repurchase transactions totaled R$22,838.4 million and R$37,248.6 million, respectively.

Loans and onlendings

The funding from loans and onlendings consists of funding facilities obtained by us, such as revolving credit facilities, trade finance, BNDES lines of credit, among others. As of June 30, 2012, the outstanding balance of these facilities was R$1,407.3 million, compared to R$919.7 million at December 31, 2011, and such increase is directly linked to our strategy to grow our corporate lending unit, which was boosted by sustained economic growth and credit demand from our corporate clients.

Dividends and other distributions

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

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

During 2011, we distributed R$692.0 million of dividends to our shareholders, with the portion thereof received by our then current Partners used to amortize the remaining part of the debt of BTG Participações with third parties. In 2011, we further distributed R$319.0 million as interest on shareholders' equity.

As a result of the above, since September 18, 2009, we paid aggregate dividends in 2009, 2010, 2011 of R$1,250.0 million, R$846.6 million and R$876.0 million, respectively, which were, to a large extent, used by the Partners to amortize the outstanding debt incurred in connection with the acquisition of us.

On August 9, 2012, our board of directors approved the distribution of proceeds to our shareholders in the amount of R$401.6 million, of which R$220.0 million will be distributed as interest on equity (subject to withholding taxes) and R$181.6 million will be distributed as dividends.

Use of Funds

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

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

	As of December 31,						As of June 30,	
(Unaudited for June 30, 2012)	**2009**	**% of total assets**	**2010**	**% of total assets**	**2011**	**% of total assets**	**2012**	**% of total assets**
	(in R$ millions, except percentages)							
Cash at banks	62.6	0.3%	1,522.8	2.1%	517.3	0.6%	311.5	0.3%
Short-term interbank investments	11,145.1	50.9%	25,209.3	34.6%	19,583.0	23.9%	26,875.6	22.8%
Securities and derivative financial instruments	5,656.8	25.8%	36,061.8	49.5%	42,893.9	52.3%	65,408.3	55.7%
Interbank transactions	25.6	0.1%	134.1	0.2%	876.7	1.1%	917.7	0.8%
Loans	1,371.2	6.3%	3,701.7	5.1%	4,665.1	5.7%	5,186.6	4.4%
Other receivables								
Securities trading and brokerage	1,022.6	4.7%	1,989.5	2.7%	4,403.8	5.4%	7,181.5	6.1%
Other receivables	2,584.4	11.7%	3,852.0	5.3%	7,641.7	9.3%	8,749.4	7.4%
Other assets	2.0	0.0%	42.5	0.1%	25.1	0.0%	21.5	0.0%
Permanent assets	56.4	0.3%	393.2	0.5%	1,405.3	1.7%	2,881.4	2.5%
Total assets	**21,926.7**	**100.0%**	**72,906.9**	**100.0%**	**82,012.0**	**100.0%**	**117,533.9**	**100.0%**

Mandatory Deposits with the Central Bank

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

Mandatory deposit requirements are generally calculated based on the moving averages of demand or term deposits. We comply with the requirements above by holding deposits in the Central Bank in the amount of R$898.1 million as of June 30, 2012.

Contractual Obligations

The table below presents the maturity and balances of our significant contractual financial obligations as of June 30, 2012:

(Unaudited)	**Total**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**
			(in R$ millions)			
Open market funding	57,279.7	54,826.9	2,234.5	–	–	218.2
Funds from securities issued and accepted	5,012.1	847.1	1,290.9	1,123.3	1,162.7	587.9
Loans and onlending	1,407.3	691.3	706.6	8.8	459	–
Subordinated debts	4,486.3	–	–	–	914.0	3,572.3

(Unaudited)	**Up to 6 months**	**6 to 12 months**	**Over 1 year**
		(in R$ millions)	
Derivatives financial instruments	6,250.8	408.8	575.3
Foreign exchange portfolio	1,792.6	201.5	–

Capital Expenditures

Our main capital investments in 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012 amounted to R$5.5 million, R$27.5 million, R$27.2 million, R$7.8 million and R$65.1 million, respectively. For the three years ended December 31, 2011, most of these expenditures related to investments in data processing systems (35%), software (28%), premises (27%) and communication systems (10%), while in the six months ended June 30, 2012, the majority of these expenditures related to investments in connection with the relocation of our São Paulo operations to a substantially larger office in 2012, as well as investments in communication systems and premises. For 2012, we expect that our main capital expenditures will amount to approximately R$147.3 million, mostly comprised of investments in premises (46%), technology infrastructure (including data processing systems and communication systems) (37%), and software (17%).

Off-Balance Sheet Transactions

Except for the co-obligation and bank guarantees we provide to clients for a fee and credit assignments in which we retain the credit risk in the ordinary course of our business via our FIDC, we do not have any off-balance sheet transactions. In addition, we do not control any company that is not consolidated or otherwise included in our financial statements, nor do we own any equity interest in any special purpose company. The total amount of bank guarantees outstanding was R$5,548.6 million as of June 30, 2012.

Risk Management

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

- market risk;
- credit risk and counterparty risk;
- liquidity risk;
- operational risk;
- reputational risk;
- tax risk; and
- legal and regulatory risk.

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

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

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

Market Risk

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

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

- interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads;

- equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices;

- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates; and

- commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Control

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

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

- identifying and measuring market risks through the calculation of VaR, stress tests, the calculation of portfolio exposures and sensitivity analyses, which can be analyzed in real-time using the systems we have developed;

- producing daily reports on risk values for senior management, including the senior management of each of our business units, which we believe provide the necessary support for proper risk management;

- establishing, controlling and reviewing the risk policies in effect, including risk limits;

- establishing and reviewing the risk calculation models we use;

- establishing and reviewing the stress test hypothetical scenarios;

- generating backtesting analyses, on a monthly or more frequent basis, with input of the actual results, in order to verify the risk estimates generated by our internal system, as well as the parameters used in the calculations; and

- regularly monitoring incurred risks and investigating any apparent anomaly, including (i) inconsistencies between reported risks and effective results (which, in addition to backtesting exceptions, include any situation involving a significant divergence between them); (ii) inconsistencies between incurred risks and business unit strategies; and (iii) positions that are not being actively managed.

Limits

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

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

- concentration limits, which include exposure limits, such as the concentration of risk factors per countries, regions and issuers; and

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

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

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

Loss Control

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

VaR

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

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

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

	For the year ended and as of December 31,			For the three months ended		
	2009	2010	2011	December 31, 2011	March 31, 2012(1)	June 30, 2012(1)
	(in R$ millions, except percentages)					
Total average daily VaR	10.3	21.6	32.3	43.2	57.6	52.6
Average daily VaR as % of average equity	0.29%	0.49%	0.54%	0.72%	0.88%	0.67%

(1) Unaudited.

Our total average daily VaR increased during 2011 and 2012, as a result of the deployment of the additional capital we raised in December 2010 in particular. The total average daily VaR also increased in the six months ended June 30, 2012 due to larger inventory of financial assets held. Our average daily VaR also increased due to the continuing ramp-up of some business areas in Sales and Trading (e.g. the energy trading desk) and new asset classes. In the second quarter of 2012, the reduction as a percentage of BTG Pactual's average shareholders' equity is a direct consequence of the capital increase from our initial public offering.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including over-the-counter derivatives, we hold. Our exposure to credit risk principally arises through our trading, investing and financing activities. To reduce our credit exposures, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. In addition, we attempt to manage the risk exposure by (i) entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty's obligations, and/or (iii) transferring our credit risk to third parties using options, swaps and other derivatives contracts on the exchanges, particularly on BM&FBOVESPA.

The following table sets forth the distribution, by credit rating, of our credit exposures as of June 30, 2012. The ratings shown below reflect our internal ratings assessment, consistently applied in accordance with the Central Bank standard ratings scale:

Rating (Unaudited)	As of June 30, 2012
	(in R$ millions)
AA	12,103
A	9,695
B	1,634
C	1,121
D	19
E	71
F	22
G	35
H	54
Total	**24,754**

Derivative Contracts

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

In our sales and trading and principal investments businesses, we actively enter into derivative transactions with our clients and counterparties in different markets in Brazil and abroad. The use of derivatives facilitates our trading activities, as these instruments typically permit the efficient transference and hedging of risks, a feature that is especially desirable given the dynamism of the markets in which we operate.

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

As of June 30, 2012, we held R$570.5 million in collateral against these over-the-counter derivative exposures. This collateral consists predominantly of cash and government bonds and is usually received by us under agreements entitling us to require additional collateral upon specified increases in exposure or the occurrence of negative credit events.

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

Liquidity and Funding Risk

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

Reputational Risk

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

Operational Risk

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

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

Operational Risk Control, a risk management group independent of our revenue-producing units, is responsible for developing and implementing a formalized framework to identify, measure, monitor, and report operational risks to support active risk management across the BTG Pactual Group. This framework, which evolves with the changing needs of our businesses and regulatory guidance, incorporates analysis of internal and external operational risk events, business environment and internal control factors, and scenario analysis. The framework has the ultimate goal of ensuring that we always operate under the highest standards of quality in our business processes, protecting the company's earnings and reputation, providing regular reporting of our operational risk exposures to our board of directors, risk committees and senior management.

Our internal controls for back office process were subject of a specific review conducted by Ernst & Young Terco under the International Standard on Assurance Engagements (ISAE 3401) Assurance Reports on Controls at Service Organization. The result of this specific review was a report issued, under the aforementioned standards, stating that there were no issues in terms of the functionality of the controls in place for back office process, as at December 31, 2011, which led management to conclude that our organization has adequate controls and safeguards, including controls over information technology and related processes when hosting data belonging to our customers. We believe that the ISAE 3410 certification demonstrates that we have implemented processes and controls to preserve the integrity of its hosted solutions. We also believe that the result of the review also strengthens our ability to support clients' internal compliance and needs and underscores our commitment to high operational standards

Tax Risk

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

Legal and Regulatory Risk

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

BUSINESS

Overview

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

Our Business

Our seven business units are:

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

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

Our Group

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

As of June 30, 2012, the BTG Pactual Group had over 1,400 professionals and offices on four continents: South America (São Paulo, Rio de Janeiro, Brasília, Recife, Porto Alegre and Belo Horizonte), North America (New York), Europe (London) and Asia (Hong Kong).

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

Our Results and Financial Condition

For the year ended December 31, 2011, our revenues were R$2,647.1 million and our net income was R$1,477.1 million. As of June 30, 2012, our shareholders' equity was R$8,953.5 million, and we managed a total of R$132.5 billion in our asset management unit and R$40.8 billion in our wealth management unit. Our different business units produce a combination of fee and trading revenues that have allowed us to consistently generate strong earnings growth and positive returns on equity through varying and at times difficult economic and market conditions. For the five years ended December 31, 2011, our average return on equity was 37.6%, with no year being lower than 17.7%.

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

	As of and for the year ended December 31,			As of and for the six months ended June 30,[1]		CAGR
	2009	**2010**	**2011**	**2011**	**2012**	**2009-2011**
	(in R$ millions, except as otherwise indicated)					%
Total revenue[2]	1,200.0	1,983.8	2,647.1	1,240.5	2,575.3	48.5%
Net income	629.3	810.9	1,477.1	445.8	945.4	53.2%
Shareholders' equity	3,244.5	5,602.6	6,339.8	5,826.9	8,953.5	39.8%
ROAE[3](%)	17.7%	18.3%	24.7%	15.6%[4]	24.7%[4]	–
AUM and AUA (in R$ billions)[1]	73.7	91.5	120.1	100.7	132.5	27.7%
WUM (in R$ billions)[1]	24.6	31.2	38.9	33.6	40.8	25.7%
BIS capital ratio	20.6%	21.5%	17.7%	19.3%	18.5%	–

(1) Unaudited.

(2) Derived from our unaudited adjusted income statement.

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

(4) Figures are presented on an annualized basis. Annualized ROAE as of and for the six months ended June 30, 2011 and 2012 are computed by dividing our annualized combined net income by the average shareholders' equity.

Our Partnership

We operate as a partnership, currently with 165 Partners, who are also executives in our group. The Partners currently own 77.11% of our equity, and 73.72% of our equity is part of our partnership, and we refer to such equity as "Partnership Equity." Our 36 most senior Partners, who we consider to be key contributors to our success, own approximately 64.26% of our equity. The members of a consortium of investors who purchased such equity in December 2010 own 12.19% of our equity, and the remaining equity is owned by persons who purchased our units in our initial public offering or thereafter in the public markets.

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

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

Our Core Values

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

Strategic Focus: How we set our strategic direction

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

People: How we work

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

Performance Management: How we achieve superior results

- Meritocracy

- Entrepreneurship
- Excellence
- Bottom line driven and cost conscious

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

Our Competitive Strengths

We believe that our competitive strengths include:

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

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

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

- were bookrunners in approximately 50% of all public equity offerings completed in Brazil from 2004 to June 2012, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007 and 2009, and the second largest equity underwriter in 2006 and 2011, according to ANBIMA. In 2010, we were the leading equity underwriter in terms of total deals completed according to ANBIMA;

- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010 and 2011 and provided advisory services in 222 announced M&A transactions from January 1, 2007 through June 30, 2012;

- have an equity research team named among the best research teams in Brazil from 2006 to 2012, and the best research team in Latin America in 2012, according to *Institutional Investor*;

- are one of the largest equity brokerage houses in Brazil in terms of total volume of securities traded, according to BM&FBOVESPA;

- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA (June 2012), with R$94.4 billion in AUM and R$96.8 billion in AUA as of June 30, 2012;

- had more than R$40.8 billion of WUM as of June 30, 2012; and

- received a number of awards recognizing the excellence of our asset management platform, including: the Best Fund Manager in the Largest Fixed Income and Flexible Mixed Allocation categories in 2012 by Standard & Poors and *Valor Econômico* – Brazil's leading financial newspaper in 2012, the Best Fixed Income Fund Manager in 2011 by *Valor Econômico*, Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by *Exame* magazine – one of Brazil's leading financial magazines, Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by *Exame* Magazine, Best Global Macro Hedge Fund (for our GEMM fund) in 2010 by *EuroHedge Awards,* Best Multi-Market Fund Manager in 2010 by *Valor Econômico*, Best Fund Manager in Brazil in the equities category from 2007 to 2009, according to Standard & Poor's (April 2009) and the Top Equity and Top Fixed Income fund manager for 2007 and 2008 and for Equities and Multi-Asset Funds for 2009 by *Valor Econômico*.

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

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

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

As a result, according to the CVM, Brazilian issuers engaged in 76 equity transactions raising R$75.5 billion in 2007, in 13 equity transactions raising R$34.9 billion in 2008, in 24 equity transactions raising R$47.1 billion in 2009, in 25 equity transactions raising R$152.2 billion in 2010 and in 25 equity transactions raising R$19.2 billion in 2011, as compared to only six equity transactions raising $6.1 billion in 2002. Brazilian issuers engaged in 57 debt transactions raising R$17.8 billion in 2007, in 82 debt transactions raising R$32.6 billion in 2008, in 170 debt transactions raising R$48.1.1 billion in 2009, in 242 debt transactions raising R$75.4 billion in 2010, in 356 debt transactions raising R$86.3 billion in 2011 and in 161 debt transactions raising R$46.0 billion in the six months ended June 30, 2012, as compared to only 43 debt transactions in Brazil raising R$3.3 billion in 2002, according to ANBIMA.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 26.0% of GDP in December 2002 to 50.6% of GDP in June 2012 according to the Central Bank.

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

The Brazilian asset management industry has also grown considerably, with AUM growing from R$739.0 billion as of December 31, 2000 to R$2,112.2 billion as of June 30, 2012, according to ANBIMA, of which 9.0% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2011, the Brazilian gross disposable income was R$4,069.6 billion, compared to R$1,653.6 billion in 2003, representing an increase of 146.1% and a CAGR, of 10.5%, according to the IBGE. We believe that increasing wealth in Brazil will stimulate growth in all our business units.

Broad Network of International Contacts

The members of the Consortium who have invested in our equity in December 2010 include affiliates of the Government of Singapore Investment Corporation Pte Ltd (GIC), China Investment Corporation (CIC), Ontario

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

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

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

We operate under a partnership model and a flat management structure that emphasizes the value of intellectual capital, entrepreneurship and meritocracy. We believe this model is the key to our success. We are managed by our Senior Management Team covering our Brazilian and international operations. We have 165 Partners that currently own, directly or indirectly, approximately 77.11% of our equity.

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

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

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

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

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

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 15 years ended December 31, 2011. For the five years ended December 31, 2011, our average return on equity was 37.6%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2007 to 2011 has been on average 21.2%. As of June 30, 2012, we had a capital ratio of 18.5%. We believe that our track record of consistently maintaining a higher capital ratio than that required by the Central Bank while consistently generating attractive returns on equity highlights our ability to deploy capital efficiently.

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

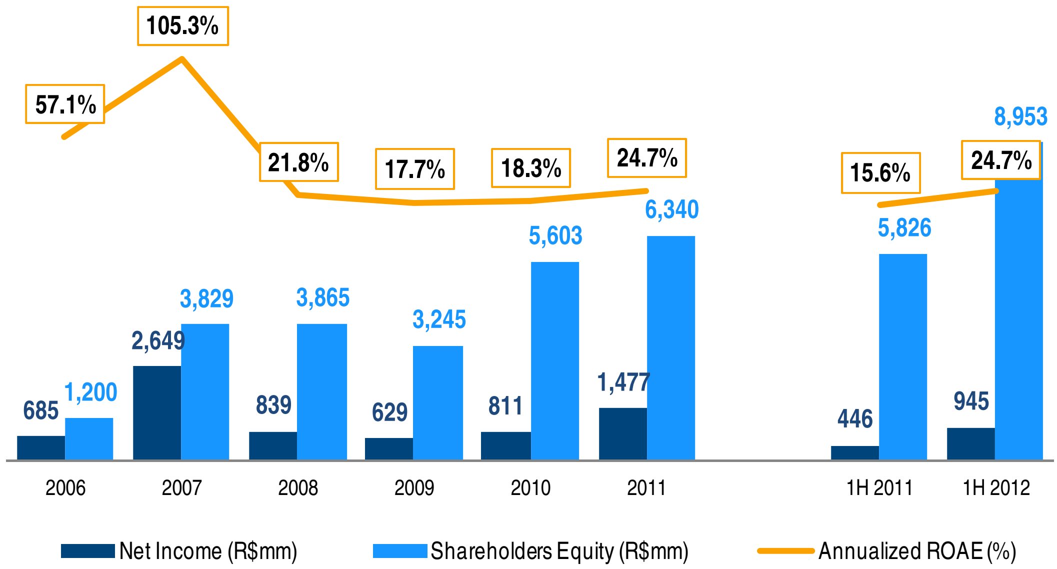
The following table sets forth our average daily VaR and our average daily VaR as a percentage of total equity for the periods indicated:

	For the year ended and as of December 31,			For the three months ended		
	2009	2010	2011	December 31, 2011	March 31, 2012(1)	June 30, 2012(1)
	(in R$ millions, except percentages)					
Total average daily VaR	10.3	21.6	32.3	43.2	57.6	52.6
Average daily VaR as % of average equity	0.29%	0.49%	0.54%	0.72%	0.88%	0.67%

(1) Unaudited.

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

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



Experienced Management Team and Motivated Work Force

We have a group of highly talented professionals with a strong reputation in the Brazilian and international financial markets. This group was responsible for establishing and implementing the strategies that permitted us to become one of Brazil's leading financial institutions. Our team includes André Santos Esteves, who was named in 2010 one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real* Plan. Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking and asset management business units. These team members have been selected based on both their previous histories of success and our belief that they shared our distinctive business culture and would serve as the cornerstones for implementing this culture in our international offices and in our businesses generally going forward.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2011, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer in the offering) was US$1.7 million, while the average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley and Credit Suisse was US$627.5 thousand.

Our Diversified Portfolio of Businesses

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

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

(Unaudited)	For the year ended December 31, 2009	2010	2011	For the six months ended June 30, 2011	2012
	(in R$ millions)				
Investment banking	215.8	344.0	338.3	198.7	178.8
Corporate lending	63.2	251.1	366.5	187.8	241.6
Sales and trading	560.8	637.8	999.9	345.8	895.9
Asset management	295.7	298.4	443.2	160.7	349.1
Wealth management	49.7	103.5	144.5	69.2	72.3
PanAmericano[(1)]	–	–	(52.0)	24.1	(118.8)
Principal investments	24.0	201.6	(111.2)	13.4	689.1
Interest and other[(2)]	(9.2)	147.4	518.1	240.9	267.3
Total revenues	**1,200.0**	**1,983.8**	**2,647.1**	**1,240.5**	**2,575.3**

(1) Our commercial banking activities commenced after the acquisition of a co-controlling interest in Banco PanAmericano on May 27, 2011, and are conducted exclusively through that non-consolidated investment. Accordingly, we did not record any revenues for our PanAmericano business unit in 2009 and 2010.

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

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

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

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

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

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. In April 2011, we enhanced our liquidity profile through the issuance of R$3.975 billion in local subordinated notes with an average maturity of 7.8 years and in July 2011 with the issuance under the Programme of US$500 million in senior notes due 2016 at a rate of 4.875%. As of June 30, 2012, we had more than 200 depositors.

Our Strategy

Our principal strategies are:

Capitalize on Brazil's Outstanding Growth Perspectives

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

- a favorable macroeconomic environment and political stability;
- a sound institutional and regulatory framework;
- improved corporate governance;
- a sophisticated and deep domestic financial market;
- a highly attractive investment environment;
- a growing middle market and middle income consumer base; and
- numerous companies well-positioned to continue to grow and tap international markets.

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

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

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

- continuing to actively market our equity and debt capital markets services to Brazilian issuers, with a view toward maintaining and expanding our position as the leading Brazilian underwriter;
- seeking to expand our M&A advisory business, both for Brazilian companies seeking to acquire businesses in Brazil or abroad, and foreign companies seeking to acquire Brazilian businesses and assets;
- continuing to be the leading independent Brazilian asset manager and a leading independent wealth manager and expanding our efforts to market these products;
- seeking to continuously develop new and sophisticated FICC products for our corporate clients to meet their needs as they grow both in Brazil and internationally;

- taking advantage of private sector and pre-IPO investment opportunities sourced through our extensive Brazilian network;

- continuing to develop the business conducted in our regional Brazilian offices outside of São Paulo and Rio de Janeiro; and

- expanding our credit products and derivatives portfolio, leveraging Banco PanAmericano's independent commercial and consumer banking platform and taking advantage of expected growth in the Brazilian middle market and middle income consumer base.

Maintain Our Distinctive Culture

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to maintain our partnership model following our initial public offering completed in April 2012. Currently, approximately 73.72% of our total equity is Partnership Equity that is owned by our Partners as part of our partnership. Our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions. Accordingly, none of our Partners sold any units or underlying securities in our initial public offering or are expected to sell such securities for the foreseeable future (i.e., we expect that the Partnership Equity will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the entire BTG Pactual Group). These mechanisms result in a substantial amount of the economic burden of incentivizing our most important executives to fall on our existing Partners, rather than Banco BTG Pactual or the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 77.11% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See "Our Partnership."

Take Advantage of Attractive Growth Opportunities through Strategic Acquisitions

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

Expand Our International Operations

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

Celfin is a leading broker dealer in Chile, a country with robust capital markets that is a net exporter of capital. Similarly, Bolsa y Renta is one of the leading broker dealers by volume of equity transactions in Colombia, with a portfolio of US$2.56 billion in wealth under management and US$833.3 million in assets under management as of June 30, 2012. We believe that we can distribute many of our Brazilian and international asset management, wealth management and corporate finance products to the respective existing client bases of Celfin and Bolsa y Renta, who are seeking additional investment options, and that our extensive experience in mergers and acquisitions and corporate finance transactions will enhance their product offerings in these areas, permitting us to enhance the revenues that Celfin and Bolsa y Renta can generate from their respective impressive bases of leading Chilean and Colombian corporate clients.

We also see Colombia (where Bolsa y Renta is based and Celfin more recently commenced operations) and Peru (where Celfin has operations) as key to our efforts to achieve substantial additional geographic diversification. These countries, like Brazil a decade ago, have incipient capital markets, an expanding consumer class and numerous companies seeking capital for growth. We were among a small handful of financial institutions that led the efforts to develop and deepen Brazil's debt, equity and mergers and acquisitions markets in the last decade, and believe that we can replicate our Brazilian success in Colombia and Peru to achieve significant market share in these markets, which we expect will grow substantially in the coming years. We also believe that many Brazilian, Chilean, Colombian and Peruvian companies will be seeking to expand throughout Latin America, and that our local presence in each of these key Latin American markets makes us uniquely positioned to provide financial services to these companies. In addition, we have also entered into a strategic cooperation agreement with VTB Capital, a leading investment bank in Russia, to explore opportunities between Russia and Latin America.

Selectively Expand Our Portfolio of Credit Products and Derivatives

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

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

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

Continue to Develop Our Merchant Banking and Private Equity Businesses

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

Significant Recent Developments

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

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

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

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

Celfin. On February 8, 2012, we entered into definitive agreements to purchase all of the outstanding shares of Celfin. In connection with the transaction, we will pay the owners of Celfin a total of US$486.0 million in cash, and US$245.7 million of such amount will be used to purchase equity interests in us and BTGI, respectively. Such equity is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so. On April 2, 2012, we approved the issuance of warrants in relation to this transaction in the total amount of US$196.0 million, which must be exercised by December 31, 2012. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals. We expect the transaction to close later this year, although there can be no assurance that the transaction will be concluded. We do not expect that the acquisition of Celfin, if consummated, will materially affect our financial condition or results of operations.

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

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

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

Bolsa y Renta. On June 14, 2012, we entered into a definitive agreement to purchase 100% of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for approximately US$51.9 million, thus concluding negotiations initiated with Bolsa y Renta in 2011. In connection with the transaction, Bolsa y Renta's current shareholders will invest approximately US$32.5 million in our equity and the equity of BTG Pactual Participations, pursuant to which they will receive units representing approximately 0.25% of our total capital stock and the capital stock of BTG Pactual Participations (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to our initial public offering. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory and corporate approvals in Brazil and Colombia.

Subsidiaries

As of the date of this Offering Memorandum, our principal subsidiaries are the following:

	Share (%) in total capital	Activity	Jurisdiction
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	99.9	Asset management services	Brazil
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	99.9	Equities broker dealer	Brazil
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários ..	99.9	Fund administration services	Brazil
BTG Pactual Corretora de Mercadorias Ltda.........	99.9	Currencies/ commodities broker dealer	Brazil
BTG Pactual Securitizadora S.A............................	99.9	Real estate securitization	Brazil
BTGP Recovery Holdings S.A.	99.9	Holding company	Brazil
BTG Pactual Holding Internacional S.A...............	99.9	Holding company	Brazil
BTG Pactual Overseas Corporation.......................	100.0	Holding company	Cayman
Banco PanAmericano S.A[(1)]	37.6	Commercial banking	Brazil
BTG Pactual Empresa Operadora do Mercado Energético Ltda. – Coomex	99.9	Electrical energy trading	Brazil
BTG Pactual Vivere Participações S.A.	100.0	Real estate business	Brazil
BW Properties S.A.	67.5	Real estate business	Brazil
G.U.A.S.P.E S.A..	99.9	Dormant company	Brazil
BTG Pactual Holding de Serguros Ltda.................	99.9	Holding company	Brazil
Global Ltd..	100.0	Holding company	Cayman
Indirect subsidiaries			
BTG Pactual Corporate Services Ltda[(2)]................	99.9	Investment banking services	Brazil
BTG Pactual Gestora de Investimentos Alternativos Ltda...	99.9	Private equity asset management services	Brazil
BTG Pactual WM Gestão de Recursos Ltda..........	99.9	Wealth management asset management services	Brazil
BTG Pactual Gestora de Recursos Ltda.................	99.9	Private equity asset management services	Brazil
BTG Pactual Serviços Energéticos Ltda. – Coomex	100.0	Electrical energy trading	Brazil
Recovery do Brasil Consultoria S.A.	50.2	Consultancy services	Brazil
BTG Pactual Global Asset Management Ltd	100.0	Asset management	Bermuda
BTG Pactual Asset Management U.S. LLC...........	100.0	Asset management	New York, United States
BTG Pactual US Capital LLC................................	100.0	Brokerage and clearing services	Delaware, United States
BTG Pactual Europe LLP	100.0	Asset management	United Kingdom
BTG Pactual Asia Limited.....................................	100.0	Asset management	Hong Kong
BTG Pactual NY Corporation................................	100.0	Holding company	United States
FC DAS S.A.	100.0	Holding company	Uruguay
BTG Global Asset Management (UK) Limited	100.0	Holding company	England
BTG Pactual Corporate Services Ltda.	99.9	Financial services advisory	Brazil
BTG Pactual SEG. Holding S.A.	100.0	Insurance business	Brazil
BTG Pactual RE Holding S.A................................	100.0	Insurance business	Brazil
BPMB III	100.0	Asset management	Brazil
BPMB IV	100.0	Asset management	Brazil

(1) Joint controlled entity.

(2) Indirect share interest of 99.9% and direct share interest of 0.01%.

Business Units

Information about our business units should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes thereto included elsewhere in this Offering Memorandum.

Investment Banking

We are among the leading providers of investment banking services in Brazil. We provide a wide range of investment banking services, such as acting as underwriters or placement agents in capital raising transactions in the public and private debt and equity markets, providing finance advisory services, and sophisticated financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals. Although these services are primarily rendered to clients based in Brazil, we also serve non-Brazilian clients, including entities and individuals seeking to engage in M&A and other transactions in Brazil or involving Brazilian securities or other Brazilian financial instruments, including services to non-Brazilian clients seeking to list their securities on BM&FBOVESPA. We have also begun to provide such services to clients in Chile, Peru and Colombia, and expect such activity to increase following completion of our pending acquisition of Celfin.

Our investment banking activities are divided into two categories:

- **Capital Markets**, which includes acting as underwriters, placement agents or advisors in public offerings and private placements of equity and debt securities; and

- **M&A and Advisory**, which includes advisory assignments with respect to mergers and acquisitions, divestitures, restructurings, spin-offs, reorganizations and other significant corporate transactions.

We believe that we provide our clients with high quality and straightforward advice and effective transaction execution, which has developed and fostered long-term relationships with our clients and has provided us with a strong competitive advantage both in Brazil and throughout Latin America, ahead of retail banks in Brazil with larger capital bases or foreign banks lacking scale and penetration in the Brazilian market.

For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from our investment banking business unit, as reflected in our adjusted income statement, were R$338.3 million, R$198.7 million and R$178.8 million, respectively, representing 12.8%, 16.0% and 6.9%, respectively, of our total revenues.

Organization

Our investment banking unit has continuously adapted its organizational structure to meet changing market dynamics and our clients' needs. Our current structure, which is organized along execution and industry groups, seeks to combine our client-focused investment bankers with execution and industry expertise.

We believe having a group of professionals who focus on developing and maintaining strong client relationships (coverage bankers) is an important competitive advantage in our marketing effort. These professionals work with senior executives of our clients to identify areas where we can provide capital raising, financial advisory or other financial products and services. Our coverage bankers are organized by industry specific groups, which include Agribusiness, Basic Materials, Energy and Power, Financial Institutions, Healthcare, Real Estate, Retail and Transportation and Telecom and Media. The broad base of experience and knowledge of our professionals, coupled with their long-term commitment to us, enables us to analyze our clients' objectives and to allocate the resources that we believe appropriate to satisfy our long-term objectives. Through our commitment to teamwork, we believe that we provide integrated services that benefit our clients.

Our capital markets group, which is divided into equity capital markets and debt capital markets, and our M&A and advisory group are responsible for the execution of specific client transactions as well as the building of client relationships. These industry and product groups provide a full range of investment banking products and services to our clients relying on specialized knowledge of industry-specific trends.

In line with the expansion of our global alternative asset management operations, we are seeking to build our global investment banking capability focused on emerging markets. Based in Europe, this capability seeks to leverage corporate and sovereign capital market and advisory opportunities across our global emerging market franchise. In addition, Celfin has an experienced investment banking team that we expect to integrate into our investment banking group.

Capital Markets

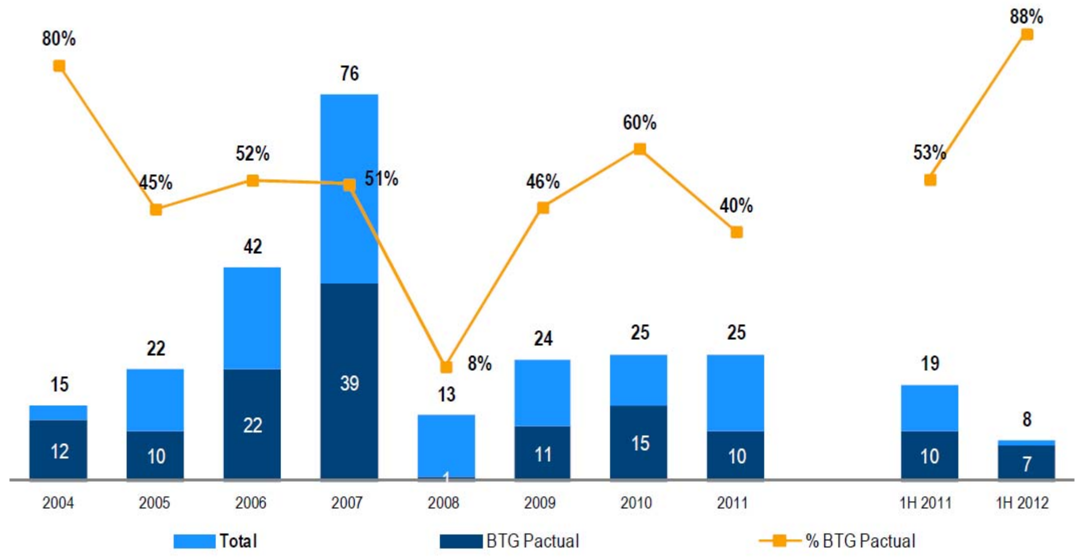
From January 1, 2009 through June 30, 2012, we served as lead manager or bookrunner in transactions that have raised approximately R$200 billion of capital for our clients. We underwrite a wide range of equity and debt securities, including convertible securities.

We believe that a key factor in our equity and debt underwriting operations is the close working relationship between our investment banking and capital markets professionals and our sales team. We believe that we have relationships with a large and diverse group of Brazilian issuers as well as Brazilian and overseas investors.

Equity Capital Markets

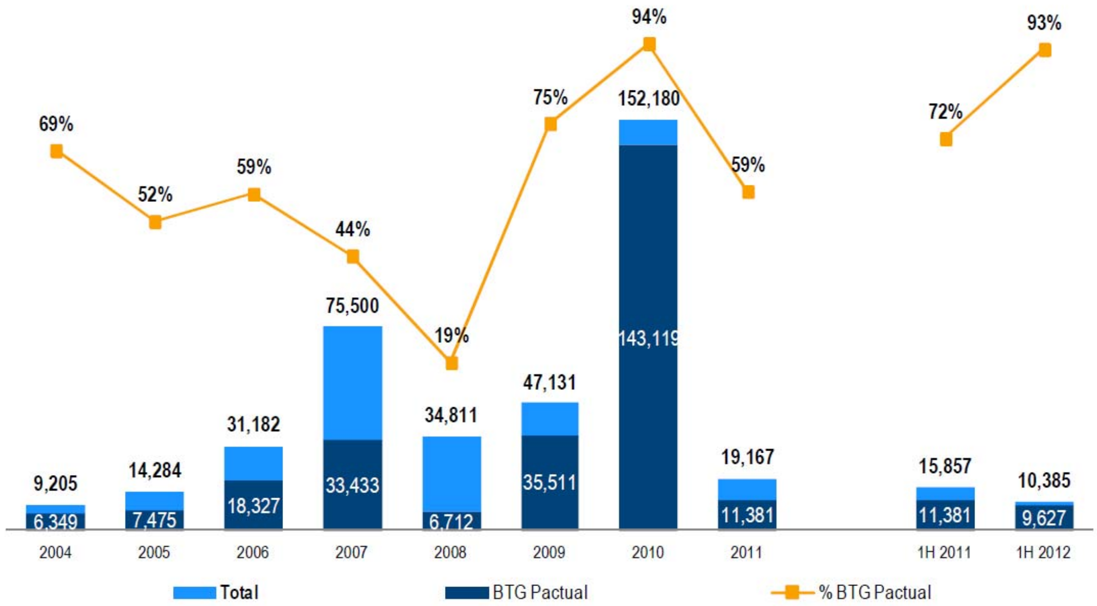
Equity underwriting has been one of our long-term core strengths. The following graphs show our strong position in equity underwriting for the periods indicated:

Number of Transactions



Source: CVM

Volume (R$ millions)[(1)(2)(3)]



Source: CVM

(1) Represents the total aggregate transaction value allocated to the underwriter syndicate participating in equity offerings and not only our share in the syndicate

(2) Represents companies listed on BM&FBOVESPA which are registered with the CVM.

(3) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

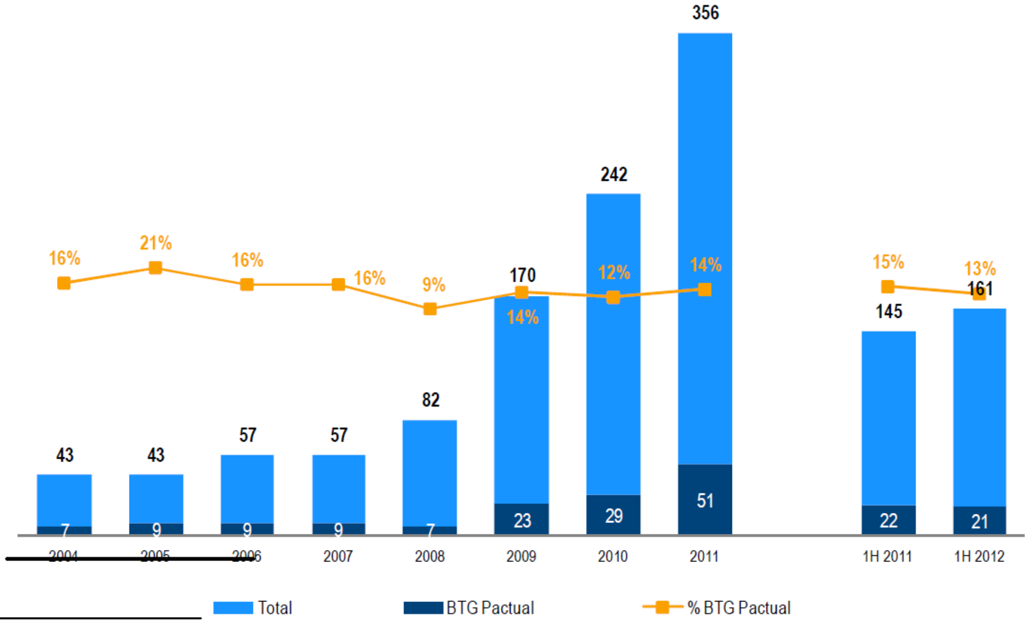
We believe our leadership reflects our expertise in capital markets transactions, the strength of our research team, our track record and our distribution capabilities.

Debt Capital Markets

We engage in the underwriting and origination of debt securities and varying debt instruments for Brazilian corporations and governmental entities, including convertible debt securities. In servicing our clients, we employ a focused approach to debt underwriting, emphasizing high value-added areas.

The graphs below set forth our strong position in the Brazilian debt capital market for the periods indicated:

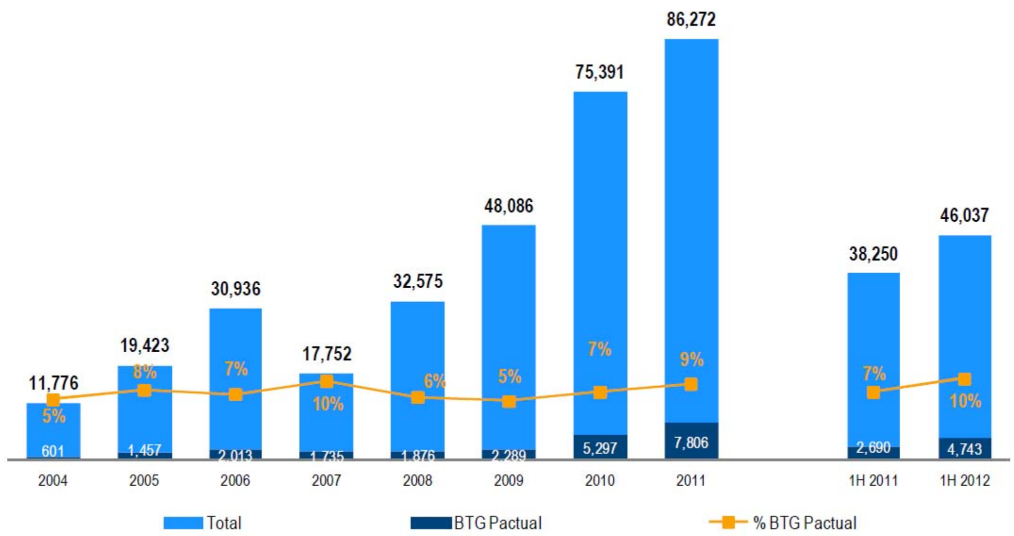
Number of Transactions[(1)]



Source: ANBIMA

(1) Accounts for local fixed income origination operations only.

Volume (R$ millions)[(1)(2)]



Source: ANBIMA

(1) Accounts for local fixed income origination operations only.

(2) With respect to syndicated transactions, represents the total aggregate transaction value allocated to the underwriter syndicate participating in debt offerings and not only BTG Pactual's portion of the total allocation.

M&A and Advisory

We provide our clients with a broad range of advisory services with respect to mergers and acquisitions, divestitures, restructurings, reorganizations and spin-offs, generally involving Brazilian companies. We advised on more than 222 mergers and acquisitions transactions from January 1, 2007 through June 30, 2012.

The following table shows the number of M&A transactions in which we have acted as advisor and our market share for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2009	**2010**	**2011**	**2012**
Number of Banco BTG Pactual transactions	10	58	56	39
Total number of transactions in the Brazilian market	509	717	815	426
Banco BTG Pactual transaction volume, in R$ million	23,795	61,688	40,975	19,750
Total transaction volume in the market, in R$ million(1)	136,685	215,671	134,887	81,512
% Banco BTG Pactual(2)	**17.4%**	**28.6%**	**30.4%**	**24.2%**

Source: Thomson Financial

(1) Assumes the full transaction value allocated to all financial advisors and not only our portion of the total allocation.

(2) Refers to the percentage of completed deals advised by us (both on sales and purchases) versus total deals completed in the period.

Investment banking is an example of how one of our activities can generate cross-selling opportunities for other areas. For example, a client advised by our M&A group may seek our assistance in obtaining financing associated with the transaction. Additional cross-selling opportunities may also arise from the continued development of our private equity and merchant banking businesses given that the companies in which we have invested may seek to access the capital markets and hire our investment banking unit as an advisor. For example, in 2011, we acted as lead underwriter in the initial public offering of Brazil Pharma, one of the portfolio companies in our private equity fund. This cross-selling is particularly advantageous in Latin America, where many affluent families still control a significant share of businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

Corporate Lending

Through our corporate lending business unit, we offer financing, structured credit, loans and guarantees to corporations, primarily in Brazil. The main focus of our corporate lending activities is to meet the demands of large corporations, developing solutions suited to the business profile and objectives of each client, such as cash flow management and mismatches between assets and liabilities.

We engage in a number of financing transactions in which we act as lender for various clients ranging from mid-size companies to larger investment grade companies. One of our strategies is leveraging our investment banking business unit in order to enhance and increase our financing transactions, capitalizing on our strong market relationships and capital position. We have provided loans to companies that we believe have potential to be leaders in their particular industry segments and also to certain private companies that we believe have potential to become publicly traded in the future, such as M&A financing and pre-IPO loans.

Our corporate lending business unit includes two booking areas: (i) the high grade credit desk and (ii) the high yield credit desk.

The main focus of our high grade credit desk is to meet the demands of large corporations through the development of solutions tailored to the business profile and objectives of each client. This desk is characterized by what we believe to be a very low probability of default and high concentration of counterparties, usually larger than R$50.0 million. Additionally, this desk is responsible for our warehousing and securitization business, which focuses on real estate related products. As of June 30, 2012, our high grade credit desk had a portfolio of R$20.4 billion, representing 88.3% of our total credit portfolio.

The main focus of our high yield credit desk is to identify credit arbitrages on loans and to acquire and capitalize on non-performing loan portfolios and legal claims. These arbitrages can arise in a variety of contexts, including from corporate turnarounds, collateral packages, guarantees or debtor-in-possession financing. This desk is characterized by high yields and higher probability of default when compared to our high grade credit desk. However, these risks are balanced by a comprehensive package of guarantees, low loss given default and moderate concentration on counterparties, usually between R$10.0 million and R$70.0 million. As of June 30, 2012, our high yield credit desk had a portfolio of R$2.7 billion, representing 11.7% of our total credit portfolio.

As of June 30, 2012, our corporate lending broader credit portfolio amounted to a total of R$23.1 billion. For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from our corporate lending business unit, as reflected in our adjusted income statement, were R$366.5 million, R$187.8 million and R$241.6 million, respectively, representing 13.8%, 15.1% and 9.4%, respectively, of our total revenues.

Organization

Our corporate lending activities are segmented into two main business lines: (i) origination and (ii) treasury products.

Our origination business activities are focused on identifying demand for loans to large Brazilian and multinational companies with a presence in Latin America. Through our origination platform, we offer a broad range of credit products, including pass through of BNDES credit lines, export financing lines, working capital loans and financing for acquisitions.

Through our treasury products business line, we offer a variety of treasury products to our customers, providing sophisticated and innovative derivative products to help our customers manage market risk exposure to foreign exchange rates and interest rates. Through our structured operations, we also offer additional products for risk management in commodities markets. We believe that our broad range of treasury products offers clients comprehensive coverage for managing their onshore and offshore cash positions in accordance with their liquidity needs and the risk profiles of their businesses. In addition, we have expertise in structuring exclusive funds for our clients, through which we are able to offer additional products from our asset management business unit.

Sales and Trading

Through our sales and trading business unit, we offer financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. These activities are divided into two segments: (i) FICC (fixed income, currency and commodities) and (ii) equity sales and trading.

For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from our sales and trading business unit, as reflected in our adjusted income statement, were R$999.9 million, R$345.8 million and R$895.9 million, respectively, representing 37.8%, 27.9% and 34.8%, respectively, of our total revenues.

FICC (Fixed Income, Currency and Commodities) Sales and Trading

Our FICC area within our sales and trading unit is a large and diversified operation through which we engage in a variety of customer-driven market-making and trading activities.

We offer financial products and services to a diverse group of corporations, financial institutions, investment and pension funds, as well as governments in local and international markets. These products and services include market-making for fixed income instruments, brokerage and clearing services, as well as derivatives, interest rates, foreign exchange and commodities transactions for hedging and trading purposes. We also engage in a variety of customer-driven market-making activities, investing in a broad range of financial instruments, including debt securities, foreign exchange spots, swaps, options, futures, loans and non-deliverable forwards, among others. We believe our willingness and ability to take calculated risks distinguishes us from most of our competitors and substantially enhances our client relationships.

Our financing activities in FICC consist of (i) undertaking a high volume of transactions with modest spreads in large and highly liquid markets, (ii) capitalizing on our strong market relationships and capital position to engage in transactions in less liquid markets in which spreads are generally larger, and (iii) structuring and executing a wide range of transactions linked to fixed income products, currencies and commodities in accordance with our clients' needs.

We provide multi-product brokerage, clearing and custody services in the Brazilian market to a diversified customer base, including hedge funds, pension funds and HNWI. These activities generate commissions through the execution of agency transactions on futures and commodities exchanges. Such agency transactions are executed for our clients located throughout the world.

One of our core FICC activities is market-making in a broad array of securities and financial products. For example, we act as a dealer in currencies for the Central Bank and as primary and specialist dealer in government bonds for the Central Bank and the Brazilian National Treasury. We believe that making markets in a broad range of fixed income, currency and commodity products and related derivatives for our clients is crucial both to maintain our client relationships and to support our underwriting business by providing secondary market liquidity. We believe our clients value counterparties that are active in the marketplace and are willing to provide liquidity and research-based approaches. In addition, we believe that our significant investment in research capabilities and proprietary analytical models are critical to our ability to provide quality advice to our clients. Our research capabilities include quantitative and qualitative analyses of global economic, currency and financial market trends, as well as credit analyses of corporate and sovereign fixed income securities.

We are active in the listed options and futures markets, and we structure, distribute and execute over-the-counter derivatives on market indices, industry groups and individual company stocks to facilitate customer transactions and our proprietary trading activities. We develop quantitative strategies and render advice with respect to portfolio hedging and restructuring and asset allocation transactions. We also create especially tailored instruments to enable sophisticated investors to undertake hedging strategies and establish or liquidate investment positions. We are one of the leading participants in the trading and development of derivative instruments in Brazil. We are an active participant in the trading of futures and options in BM&FBOVESPA, and we also trade on most of the major exchanges in the United States, Europe and Asia.

Equity Sales and Trading

We make markets and take large positions in certain equity securities to facilitate customers' transactions and to provide liquidity in the marketplace. We operate in most of the major stock exchanges, including BM&FBOVESPA, NYSE, LSE and HKEx.

Acting as an agent, we execute brokerage transactions in equity securities for institutional and individual customers located throughout the world. In recent years, aggregate commissions derived from our brokerage services have increased as a result of growth in transaction volumes on the exchanges, despite the significant impact the global financial crisis had on the world economy. We were one of the six largest equity brokerage houses in Brazil in terms of total volume traded in 2011, according to Data Trader, and have subsidiaries qualified as broker-dealers located in New York and London.

We also provide securities lending services through the borrowing and lending of equity securities to cover our clients' as well as our own short sales and to finance our long positions. Lenders of securities include pension funds, mutual funds, insurance companies, investment advisors, endowments, banks and individuals. We have relationships with certain strategic lenders that provide us with access to large pools of securities.

Our equity trading activities consist of undertaking on behalf of our clients a high volume of transactions with modest spreads in liquid markets such as the over-the-counter market for equity securities. We were the sixth largest broker, by aggregate volume, on BM&FBOVESPA for 2011, according to Data Trader. We also undertake large transactions, such as block trades and positions in securities, in which we benefit from spreads that are generally larger. Finally, we structure and execute complex equity-linked transactions in accordance with our clients' needs.

Research

Our research team provides fundamental research on equity, commodities, interest rates and currencies markets, macroeconomic trends, industries and companies, primarily in Latin America. We have developed an industry-leading position for our investment research products. We believe that our investment research capabilities are a significant factor in our strong competitive position in equity trading.

We believe that major investors worldwide recognize us for our value-added research products, which are highly rated in client polls across the Americas, Europe and Asia. Our equity research team was named the among the best research teams in Brazil from 2006 and 2012 and the best research team in Latin America in 2012, according to *Institutional Investor.* In addition, our fixed income (credit) research team was named among the best research teams in Brazil from 2010 to 2012 and Latin America in 2010, according to *Institutional Investor*.

Our research team provides equity research coverage on approximately 170 companies in Latin America, 15 different business sectors and eight economies. This is accomplished through three groups:

- the Macroeconomic Research group, which formulates macroeconomic forecasts for global economic activity and currencies, interest rates and commodities markets;

- the Equities Research group, which (i) forecasts equity market returns and provides recommendations on both asset allocation and industry representation, and (ii) provides fundamental analysis, forecasts and investment recommendations for companies and industries in Latin America; and

- the Fixed Income Research group, which provides credit analysis and investment recommendations for companies and markets in Latin America.

We do not record any revenues from our research activities. Our research team provides useful information to our business units as well as our clients in connection with a broad range of financial products and services.

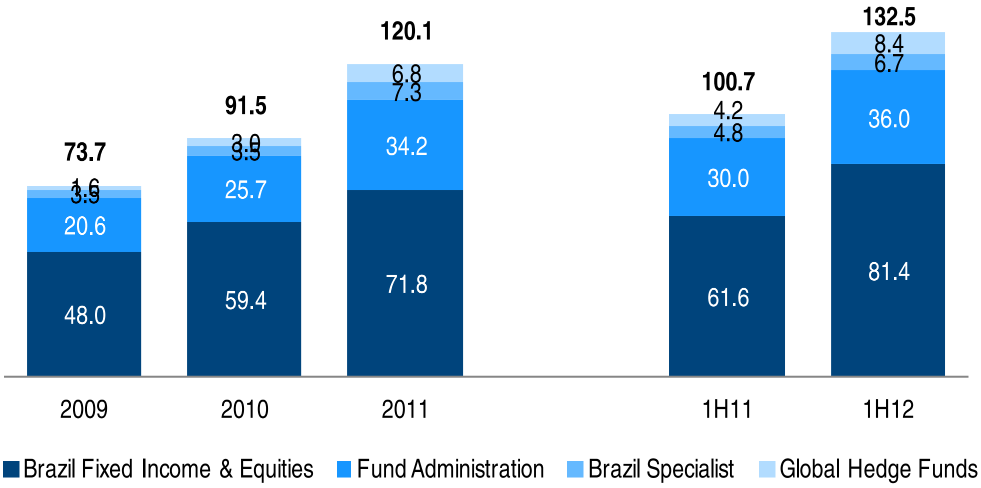
Asset Management

We offer asset management services across major asset classes to Brazilian and international clients. Our products include fixed income, money market, equity, multi-asset and private equity funds (including funds wholly-owned by us and BTGI) both in Brazil and abroad. Our funds are tailored to meet our clients' needs. We have funds targeted at a broader public such as those distributed by third party distribution channels and also exclusive funds or funds restricted to a limited number of clients. In addition, we provide fund administration services to third parties.

As of June 30, 2012, we had R$94.4 billion in AUM and R$96.8 billion in AUA, making us the largest asset manager in Brazil excluding retail banks, according to ANBIMA. In addition, according to ANBIMA, as of June 30, 2012, we are the sixth largest financial institution in Brazil in terms of AUM, competing against large retail banks such as Banco do Brasil, Itaú, Bradesco, Caixa and Santander, which are each supported by a large network of branches throughout Brazil.

The following graph sets forth our combined AUM and AUA by asset class and the change in our portfolio of AUM and AUA as of each of the specified dates:

AUM by Asset Class (in R$ billions)



For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from our asset management business unit, as reflected in our adjusted income statement, were R$443.2 million, R$160.7 million and R$349.1 million, respectively, representing 16.7%, 13.0% and 13.6%, respectively, of our total revenues.

Organization

We have continuously adapted the organizational structure of our asset management unit to meet market trends and our clients' needs.

Our asset management business unit is divided into management and fund administration services. Our management services consist of managing the portfolio of the funds on a discretionary basis. Our fund administration services consist of calculating the net asset value of the funds and rendering other services such as monitoring the compliance of the fund with the applicable regulation and providing operational control of the assets underlying the portfolios. We believe that the broad range of services provided by our asset management unit grants us an important competitive advantage.

Our primary clients include HNWI and institutional clients. Our institutional clients include pension funds, corporations, insurance companies and financial intermediaries (third party distribution). We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy. As of June 30, 2012, our client base was divided as follows: institutional (16.4%); HNWI (17.1%); financial intermediaries (12.1%); corporations (21.6%); fund services (15.9%); and other (17.0%).

The table below shows the breakdown of our AUM by client type:

(Unaudited)	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(in R$ millions)			
Institutional	14.5	16.6	20.5	21.7
HNWI	13.3	15.0	21.8	22.6
Financial intermediaries (third party distribution)	13.1	13.9	15.9	16.0
Corporations	17.3	25.0	27.7	28.6
Fund Services	12.9	14.6	18.5	21.1
Other	2.6	6.4	15.9	22.5
Total	**73.7**	**91.5**	**120.1**	**132.5**

We distribute our funds through the distribution channels of our asset management and wealth management business units as well as through banks, brokerage firms and other financial intermediaries. We have strategic distribution agreements with major banks in Brazil, including Banco Citibank S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Bradesco S.A., pursuant to which we pay fees for clients originated by these distribution channels.

We consider a strong and well-known asset management unit to be important not only for attracting new clients, but for providing our existing clients with a premium service.

Management of Funds

Our subsidiary BTG Pactual Asset Management is dedicated exclusively to providing asset management services through our investment funds and managed portfolios. The portfolio of products includes Brazilian funds, emerging market funds and global funds, and we have specific products for a wide range of clients. BTG Pactual Asset Management was the largest asset manager in Brazil excluding retail banks, according to ANBIMA, with R$94.4 billion in AUM as of June 30, 2012.

Our investment products include fixed income and equity funds, equity funds, multi-asset funds, structured funds and private equity funds, both in Brazil and abroad.

Fixed Income and Equity Funds. On June 30, 2012, we had R$81.4 billion under management invested in fixed income and equity funds.

Global Hedge Funds. On June 30, 2012, we had R$8.4 billion under management invested in multi-asset funds. These funds have hybrid portfolios composed of a mix of fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities, mortgages and interest rates.

Our asset management unit also manages ARF and ARF II, in which our principal investments business unit is the major investor. These funds invest outside of Brazil in both G-7 and non-Brazilian emerging market securities, opportunistically and on a worldwide basis. As of June 30, 2012, ARF and ARF II had a total asset value of US$8,992 million and US$18,213 million, respectively.

Private Equity Funds. On June 30, 2012, we had R$6.7 billion under management invested in private equity funds. Our private equity funds pursue long-term investments in equity and debt securities in privately held companies purchased in privately negotiated transactions. Our strategy with respect to each private equity fund is to invest opportunistically and to build a portfolio of investments that is diversified by industry, product type and transaction structure and type. Our private equity funds seek to leverage our long-standing relationships with companies, investors, entrepreneurs and financial intermediaries around the world to source potential investment opportunities. In addition, our private equity funds and their portfolio companies have generated business for our other business units, including equity underwriting, leveraged and other financing, fees and merger advisory fees. While potentially risky and frequently illiquid, our private equity activities, when successful, can yield substantial returns on capital for the investors and generate attractive management and performance fees for us.

The following table sets forth the portfolio companies of the private equity funds managed by our asset management unit, some of which the BTG Pactual Group invests in through our principal investments unit (see "—Principal Investments.")

Name:	**Company Name:**	**Description:**
Brasbunker	Brasbunker Participações S.A.	A leading company in Brazil specialized in providing marine support services, offshore logistics, construction and repair services and environmental protection solutions serving the oil and gas exploration industry.
CCRR	CCRR Participações S.A.	Industry leader in adhesives, labels and specialty paper markets in Latin America. CCRR is a result of the merger between Colacril, the largest adhesives plant in Latin America, and RR Etiquetas, responsible for the implementation of the barcode system in Brazil.
Estre Ambiental	Estre Ambiental S.A.	One of the leaders in Brazilian waste collection, treatment and disposal sectors. Estre occupies a prominent position in managing landfills and developing diagnostic activities and integrated environmental solutions for waste management.
BR Pharma	Brazil Pharma S.A.	Brazil Pharma is one of the largest pharmaceutical retail companies in Brazil (in terms of number of stores), with more than 800 points of sale throughout Brazil. Brazil Pharma's business model relies on the operation of drugstores it owns as well as a network of franchisees.
Estapar	Allpark Empreendimentos, Participações e Serviços S.A.	Brazil's largest parking company, with a presence in 15 Brazilian states. Including franchisee parking lots, Estapar's brand is present in over 800 parking lots, including lots in off-street segments, on-street (blue zone electronic) segments, real estate and public and private concessions.
DvBr	Derivados do Brasil S.A.	One of the largest operators of gas stations in southeastern Brazil created following the merger of the networks of Via Brasil and Aster.
Mitsubishi	MMC Automotores do Brasil S.A.	Manufacturer and importer of Mitsubishi vehicles in Brazil, selling approximately 60,000 vehicles in 2011.
Suzuki	SVB Automotores do Brasil S.A.	Importer of Suzuki vehicles in Brazil, selling approximately 8,000 vehicles in 2011.
Intesa	Integração Transmissora de Energia S/A	695 kilometers of strategically important transmission lines in Brazil's electric power grid located in the States of Goiás and Tocantins. The project was granted a concession of 30 years following a public auction held in 2005 and became operational in April 2008.
Gera Amazonas	Geradora de Energia do Amazonas S/A	A thermal power plant with an installed capacity of 85.4MW located in the north of Brazil (in operation since 2006) strategic in ensuring electrical supply in the northern region of Brazil and operating with a 20-year power purchase agreement with Amazonas Energia (local distribution company) granted through public auction.
Tevisa	Termelétrica Viana S/A	164MW of installed capacity in the State of Espírito Santo (in operation since January 2010) with a load factor of 96.8%. Fueled by heavy fuel oil supplied by Petrobras and BR Distribuidora, the project is operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.
Gera Norte	Geradora de Energia do Norte S/A	Thermal power plants located in the State of Maranhão, with installed capacity of 331.74MW (in operation since January 2010). Operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.

Name:	Company Name:	Description:
PCH Braço	Pequena Central Hidrelétrica Rio do Braço S.A.	Small hydroelectric power plant with installed capacity of 11.52MW located in the State of Rio de Janeiro (in operation since January 2011) with an occupancy rate of 69.6%.
Linhares Geração	Linhares Geração S/A	Gas power plant with 204MW of installed capacity located in the State of Espírito Santo (in operation since December 2010). Operating with a 15-year power purchase agreement with 30 distribution companies awarded through the A-3 energy auction in 2008.
Ersa	CPFL Renováveis (current)	CPFL Renováveis explores opportunities in renewable energy, with a portfolio totaling 4,438MW comprised of small (up to 30MW) and medium (up to 200MW) sized plants, including 34 small hydropower plants, 8 wind farms and 4 biomass power plants in operation, 1 small hydropower plant, 25 wind farms and 4 biomass power plants in construction and 5 small hydropower plants and 11 wind farms in development.
Santé	Santé Alimentação e Serviços S.A.	Company in food industry specializing in the outsourcing of industrial kitchens.
Gratícia	Gratícia Produtos Alimentícios S.A.	Fleet outsourcing company focused on the private sector in the northeast region of Brazil and also operates car rental and fleet management businesses.
Frotamais	MAIS Participações S.A.	Specialty food company manufacturing snack foods with strong market presence in the State of Pernambuco and other northeastern states of Brazil.
Beat	ACS Omicron Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 50m² apartments at an average price of R$450.0 thousand each. The total potential value of the project if all units are sold *(valor geral de venda*), or VGV, is approximately R$62.0 million. Beat is currently in its initial phase of construction with 85% of the units already sold.
MaxHaus	Maxcasa XIX Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 70m² apartments at an average price of R$600.0 thousand each. The VGV for the project is approximately R$106.0 million. MaxHaus is currently in its initial phase of construction with 51% of the units already sold.
UpTown	Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m² to larger warehouse spaces. The VGV for the project is approximately R$380.0 million. Uptown is currently in its initial phase of construction with 90% of units already sold.
Leader	Leader Participações S.A.	Leader is a Brazilian retailer headquartered in the state of Rio de Janeiro with a focus in the clothing and apparel segment (comprising 73% of Leader's sales) for consumers primarily from the high growth B and C economic classes in Brazil. Leader had gross retail sales of R$1.3 billion in 2011.
BodyTech	A! BodyTech Participações S.A.	BodyTech is a leading Brazilian fitness chain operating in both the high-end and low-end markets in Brazil, with 31 units in operation and 15 greenfield projects.
UOL	Universo Online S.A.	UOL is Brazil's most popular web portal with 4 million unique visitors per day. It is also Brazil's leader in data center area and online alternative payments (through PagSeguro, the Brazilian equivalent of Paypal).

Our asset management unit also manages the investments made directly or through other investment vehicles by our principal investment unit, which are not reflected in the table above. See "—Principal Investments."

We have established a successful track record of private equity activities specifically in the energy and power and real estate sectors.

Our private equity activities include ten professionals focusing on several key industries including consumer products, energy, healthcare, power, real estate, retail, technology and transportation. Our investment professionals identify, manage and sell investments on behalf of our private equity funds. In addition, our private equity professionals work closely with other of our business units, where they can benefit from the expertise of specialists in debt and equity research, investment banking, leveraged finance and equity capital markets.

Our real estate investment team identifies and executes investment opportunities in diverse projects and assets, including residential and commercial construction projects, shopping centers and commercial buildings for lease. The team is made up of experienced real estate and finance professionals, allowing a detailed analysis of the economic viability of each project or asset in order to be able to select the best investment opportunities.

Fund Administration or Fund Services

Through BTG Pactual Serviços Financeiros, we provide a broad range of financial services to our clients in respect of both onshore and offshore funds, including:

- calculation of net asset value, which is the cumulative market value of the fund's assets net of its liabilities;
- asset pricing;
- registrar and transfer agent services;
- control of the fund's fees (management and performance fees) and other expenses;
- reporting on the fund's portfolio composition;
- preparation of monthly reports for the fund's clients; and
- calculation of any tax that may be imposed on the funds.

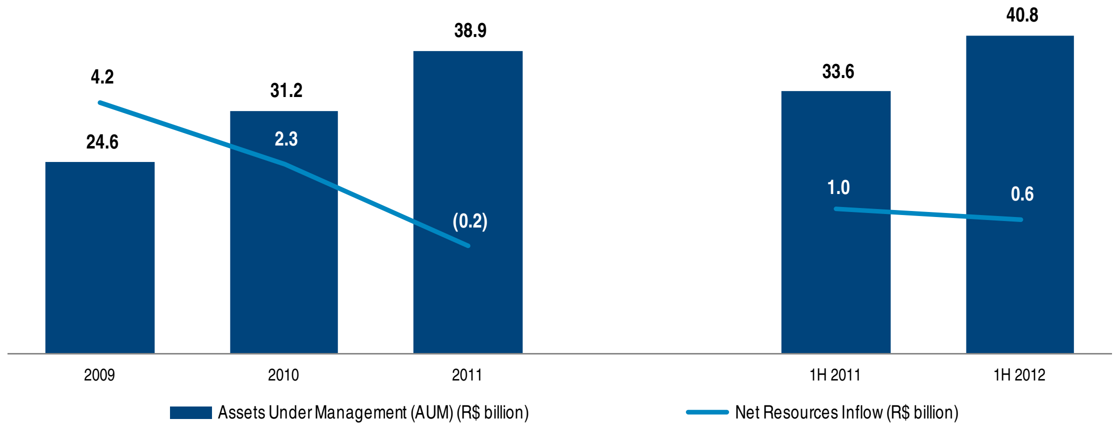
As administrator of the funds, we are also responsible for providing any information regarding the funds to regulators such as the Central Bank and the CVM and to ANBIMA as the self-regulatory authority.

According to data published by ANBIMA, on June 30, 2012, BTG Pactual Serviços Financeiros was the eighth largest fund administrator in Brazil with R$96.8 billion in AUA.

Wealth Management

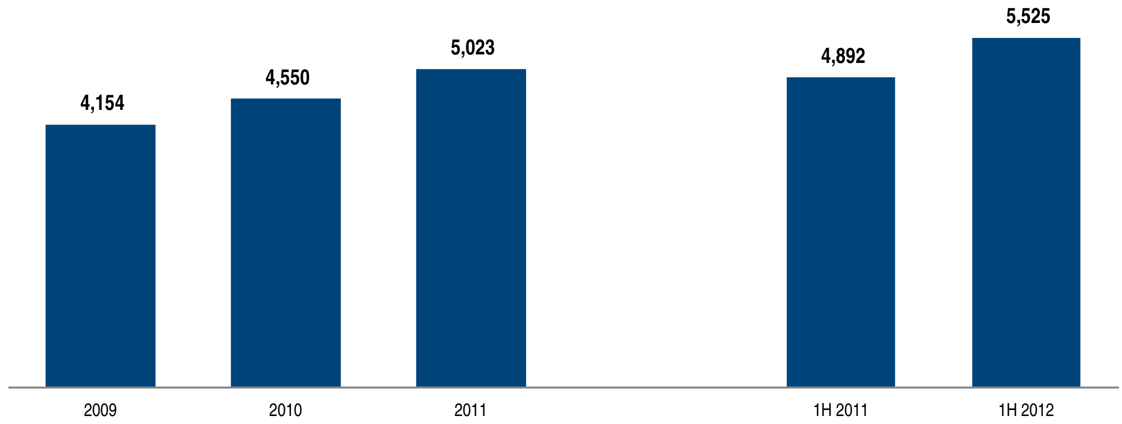
We provide investment advisory and financial planning services and offer investment products to HNWI primarily located in Brazil. These services are provided through separately managed accounts as well as multi-investor vehicles across diverse financial asset classes, through both funds managed by our asset management team and funds managed by other financial institutions or asset managers. We also offer other services to our wealth management clients such as wealth planning, loans and bank guarantees and family office services.

As of June 30, 2012, our wealth management unit managed approximately R$40.8 billion in assets. According to data published in a private banking survey by Euromoney in 2011 and 2012, BTG Pactual Wealth Management was ranked second in the category of best private banking services (overall) provider in Brazil. For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from wealth management business unit, as reflected in our adjusted income statement, were R$144.5 million, R$69.2 million and R$72.3 million, respectively, representing 5.5%, 5.6% and 2.8%, respectively, of our total revenues. The following graph sets forth an overview of our wealth management portfolio and net inflows/outflows as of each of the dates indicated below:



On June 30, 2012, we had 5,525 wealth management clients, representing 2,268 economic groups for whom we managed an average of R$18.0 million each. We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy.

The graph below shows the number of clients in our wealth management portfolio at the dates indicated:



Organization

Our wealth management model is based on customized and pro-active client service through our specialized client advisors. Each client advisor attends to a limited number of clients, offering a range of financial products and personalized services according to each client's needs. Our client advisors are expected to understand their clients' needs, financial expectations and risk tolerance. Periodic reviews allow our client advisors to help clients monitor their portfolios and adapt to changing conditions. Client advisors are principally organized by client market, which allows them a higher level of client focus. We believe that this approach fosters long-term client relationships.

Our client advisors retain primary responsibility for increasing the penetration of wealth management service products within our existing customer base by introducing products and services and for generating new clients throughout Brazil.

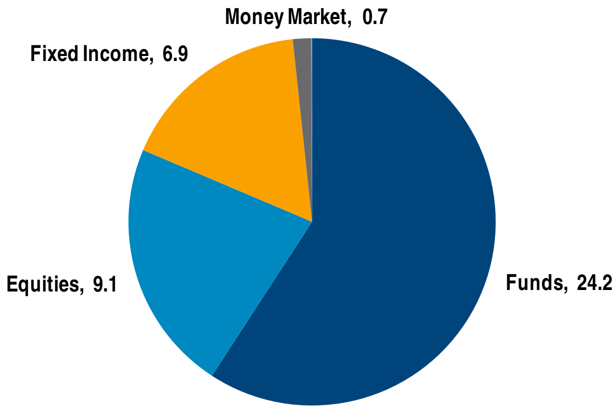
We provide a number of asset-based, transaction-based and other services to clients. Asset-based services include custodial services, deposit accounts, loans and fiduciary services, and transaction-based services include trading and brokerage and investment fund services. Wealth management also provides financial planning and consulting services. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and personal tax structuring and tax efficient investments.

Financial Planning and Wealth Management. Develops integrated comprehensive wealth management services in the form of tax and estate planning, liquidity and retirement lifestyle planning, insurance products, real estate advisory services and a variety of sophisticated capital enhancement and asset protection strategies.

Financial Advisory. Provides advisory services and solutions to clients who are entrepreneurs or company owners, including funding options and advice on structuring mergers and acquisitions.

Family Office. Provides a consolidated position of investments with a view to provide complete tax and estate planning advice.

The following graph shows information concerning WUM, presented in R$ billions, by asset class in wealth management as of June 30, 2012:



PanAmericano

In January 2011, we entered into an agreement to purchase 100% of the shares in Banco PanAmericano held by Grupo Silvio Santos for R$450.0 million, representing a 37.64% stake in Banco PanAmericano (composed of 51.00% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011. The acquisition triggered a requirement that we commence a tender offer to purchase additional shares of Banco PanAmericano held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an insignificant amount of additional non-voting shares of Banco PanAmericano. As a result, we maintained our 37.64% stake in Banco PanAmericano's total outstanding equity. In connection with this acquisition, we and CaixaPar, who owns a 36.56% interest in Banco PanAmericano's total capital stock, entered into a shareholders agreement which establishes the conditions for the shared control of Banco PanAmericano. In addition, CaixaPar reiterated its commitment to preserve its strategic alliance with Banco PanAmericano by entering into a cooperation agreement under which CaixaPar has agreed to acquire credits originated by, and invest in deposits issued by, Banco PanAmericano, thus helping to support its future business. Banco PanAmericano and CaixaPar also intend to expand the range of the financial products and services they offer through leveraging their distribution channels. We believe the agreement will strengthen our partnership with CaixaPar.

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

In November 2010, prior to our acquisition, Banco PanAmericano disclosed that a series of accounting inconsistencies had been uncovered at Banco PanAmericano which resulted in losses totaling R$2.5 billion. Upon such announcement, Grupo Silvio Santos and CaixaPar sought to prevent new inconsistencies by electing a new management team at Banco PanAmericano. In addition, Grupo Silvio Santos agreed to make Banco PanAmericano whole for such losses by injecting R$2.5 billion of capital. Subsequently, additional financial irregularities totaling R$1.3 billion and other adjustments totaling R$0.5 billion were identified. As a consequence, on January 31, 2011, Grupo Silvio Santos injected an additional R$1.3 billion into Banco PanAmericano and agreed to sell its stake in Banco PanAmericano to us. We elected new officers and directors of Banco PanAmericano in April 2011.

As a result of the aforementioned problems, which demonstrated significant weaknesses and irregularities of the existing accounting systems and internal controls of the institution, Banco PanAmericano is currently executing important investments in technology and processes in order to improve operational and competitive conditions of the bank.

Banco PanAmericano generated a consolidated net income of R$67.0 million in 2011 and consolidated net loss of R$325.4 million in the six months ended June 30, 2012. However, there can be no assurance that it will not generate net losses during 2012 or thereafter. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity pick-up from associates. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2011. Accordingly, we recorded losses of R$27.2 million in connection with the Banco PanAmericano equity pick-up for 2011 and R$79.1 million in losses for the six months ended June 30, 2012. For the year ended December 31, 2011 and for the six months ended June 30, 2011 and 2012, our revenues from PanAmericano business unit, as reflected in our adjusted income statement, were losses of R$52.0 million, gains of R$24.1 million and losses of R$117.8 million, respectively, representing -2.0%, 1.9% and -4.6%, respectively, of our total revenues. The management of Banco PanAmericano is taking several initiatives intended to improve Banco PanAmericano's profitability and avoid any further accumulated loss adjustments.

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

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

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

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

Below is a description of the main activities of our PanAmericano unit:

Consumer finance and personal loans

Banco PanAmericano provides direct consumer credit (*crédito direto ao consumidor*) and personal credit to individuals in Brazil in the lower to middle income brackets for the acquisition of certain high-cost products, including light and heavy-duty vehicles and motorcycles, real property, furniture, building materials, household appliances, electric and electronic products, and to finance expenses related to tourism. Personal loans are similar to direct consumer credit except that they are not granted for a specific purpose and can be used for general purposes. Personal loans are generally supported by third party guarantees, while direct consumer credit is usually guaranteed by conditional sale of real property or vehicles and post-dated checks.

Payroll deduction loans

Banco PanAmericano provides payroll deduction loans, a type of retail loan where repayments are deducted directly from the salary payments of employees working at public sector entities which have agreements with Banco PanAmericano. Banco PanAmericano has agreements with several public entities, including the states of Rio de Janeiro, Ceará, Goiás, Acre, Mato Grosso, Minas Gerais, Amazonas and Paraná; civil servants and pensioners of the administration of certain local and state capitals, including Goiânia, Rio de Janeiro, Florianópolis, Belo Horizonte, Cuiabá and the INSS.

Credit Cards

In 2011, Banco PanAmericano implemented a number of initiatives intended to improve its credit card base, including the redesign of its activation procedures and improvements to its Maxi Bônus rewards program and the loan recovery processes. Banco PanAmericano also implemented a series of other measures to reduce expenses and increase operating margins, such as renegotiations with co-branded card partners, the implementation of more comprehensive and structured lending models and rationalization of the investments to expand its base. All these efforts led to a decrease in the ratio of administrative expenses to net revenue in 2011.

In 2011, Banco PanAmericano issued 608.8 thousand new credit cards, including additional cards under the Visa and MasterCard brands. Banco PanAmericano's credit card account base, which includes institutional and hybrid cards, ended 2011 with 2.0 million accounts, equivalent to 3.0 million issued cards. In 2011, the volume of transactions on Banco PanAmericano credit cards was R$3.0 billion.

In August 2011, Banco PanAmericano competed against other Brazilian credit card issuers for operational quality awards from the Visa brand, open to issuers with more than twelve million transactions per year, and won in two of the award's three categories, namely the highest efficiency rate in chargebacks and the lowest request rate for copies of proof-of-sales receipts.

In September 2011, Banco PanAmericano completed the integration of the Rêv Worldwide platform with its branch network and Caixa lottery outlet network, which enabled the creation of the largest recharging network for prepaid multiuse cards in Brazil.

Insurance

Banco PanAmericano's main insurance products are (i) personal insurance and (ii) mandatory insurance for personal injury caused by motor vehicles (*Danos Pessoais Causados Por Veículos Automotores de Vias Terrestre)*, or DPVAT. Banco PanAmericano's personal insurance division focuses on group life insurance as well as personal accident and credit life insurance. In the personal injury insurance segment, Banco PanAmericano operates principally in the DPVAT consortium, which is a pool of insurers who underwrite DPVAT on a joint liability basis.

As a policy, Banco PanAmericano passes risks in excess of R$100 thousand on to other insurers or reinsurers.

Corporate (Empresas Department)

Banco PanAmericano's Empresas Department was launched in 2009 with a focus on guaranteed account and working capital financing operations. As of December 31, 2011, Banco PanAmericano's portfolio of loans and financings totaled approximately R$843.9 million to approximately 124 corporations. Banco PanAmericano's Empresas Department is separate from our corporate lending business unit.

Principal Investments

Our principal investments includes proprietary investment activities involving a wide range of financial instruments, including merchant banking and real estate investments in Brazil, as well as a variety of financial investments in global markets. Our principal investments are primarily managed by our asset management group.

We have proprietary investments in a diversified range of financial instruments across multiple asset classes and geographic regions. Our principal investments teams responsible for the management of such investments are located in São Paulo, Rio de Janeiro, New York, London and Hong Kong. These teams focus on both developed and emerging markets, allocating capital across various underlying strategies that include a mix of emerging markets and global macro themes, including fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities and mortgages.

Our principal investments take on a variety of risks and devote substantial resources to benefiting from this exposure. We leverage our analysis of information in order to take advantage of perceived disparities in the value of assets in trading markets and of macroeconomic, company and industry-specific trends.

Our principal investments also involve arbitrage activities, by investing in a broad range of financial and equity instruments. The strategy of activities is based on making global investments through a diversified portfolio across different markets and event categories. Our investment decisions are the product of rigorous, fundamental, situational and regulatory and legal analysis.

Our real estate investments consist of investments held in the following portfolio companies:

Company Name	Description	Investment Vehicle	Ownership Stake
BR Properties S.A.	One of the most important market participants in the Brazilian real estate properties segment, with a focus on the development, acquisition, leasing and sale of commercial and industrial/logistics real estate properties in Brazil. BR Properties is the surviving company following the merger of BR Properties and One Properties on March 29, 2012. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties."	Banco BTG Pactual S.A.	28.3%
BW Properties S.A.	A real estate development company focused on commercial development and long-term real estate investments. It was formed following our joint investment with WTorre Properties S.A., and is currently developing two real estate projects in rapidly growing regions of São Paulo. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestures and Corporate Restructurings Affecting Our Results of Operations—Establishment of BW Properties S.A."	Banco BTG Pactual S.A.	67.49%
ACS Omicron Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 50m² apartments at an average price of R$450 thousand each. The total potential value of the project if all units are sold (valor geral de venda), or VGV, is approximately R$62 million. Beat is currently in its initial phase of construction, with 85% of the units already sold.	Banco BTG Pactual S.A.	44.74%
Maxcasa XIX Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 70m² apartments at an average price of R$600 thousand each. The VGV for the project is approximately R$106 million. MaxHaus is currently in its initial phase of construction, with 51% of the units already sold.	Banco BTG Pactual S.A.	50.00%
Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m² to larger warehouse spaces. The VGV for the project is approximately R$380 million. Uptown is currently in its initial phase of construction, with 90% of units already sold.	Banco BTG Pactual S.A.	35.00%

In addition, our merchant banking activities consist of immaterial investments in certain of the portfolio companies of the private equity funds managed by our asset management unit. (see "—Asset Management—Management of Funds." The merchant banking activities for the BTG Pactual Group are typically conducted through BTGI.

For the year ended December 31, 2011 and the six months ended June 30, 2011 and 2012, our revenues from principal investments business unit, as reflected in our adjusted income statement, were losses of R$11.2

million, and gains of R$13.4 million and R$689.1 million, respectively, representing -4.2%, 1.1% and 26.8%, respectively, of our total revenues.

Celfin

On February 8, 2012, we entered into definitive agreements to purchase all of the outstanding shares of Celfin, a leading financial services and brokerage firm in Chile that also operates in Peru and Colombia. We believe our transaction with Celfin represents a milestone in our effort to replicate our history of success in Brazil throughout Latin America, in particular in the Andean region, and uniquely positions us as a true leader throughout the region. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory and corporate approvals, including the approval of the Central Bank.

Celfin's History and Organization

Celfin was founded in 1988 by three partners, Jorge Errázuriz, Juan Andrés Camus and Mario Lobo, as a research and asset management company. Shortly thereafter, Celfin was appointed as sub-advisor and local administrator for the Chile Fund Inc., the largest vehicle for foreign currency investments in Chile, which is listed on the NYSE.

Celfin soon expanded its operations to include investment banking, partially as a result of its relationship with Salomon Brothers Inc., and in 1990, Celfin participated in the ADR offering of Compañía de Telecomunicaciones de Chile, which was the first ADR issuance by a Chilean company. This transaction led to Celfin's participation in numerous other equity offerings and listings by Chilean issuers.

In 1997, Celfin acquired a brokerage house and, shortly thereafter, became the leading brokerage house in Chile, according to the Santiago Stock Exchange (*Bolsa de Comercio de Santiago*), with a market share ranging from 15% and 20% from 2001 to 2011.

Over the following ten years, Celfin continued to grow, eventually expanding its business to include additional investment banking, asset management and wealth management operations. In 2007, Celfin initiated its expansion throughout the Andean region and opened an office in Lima, Peru. Celfin is one of the leading brokerage houses in Peru, with a market share of approximately 10% as of December 2011, according to the principal securities regulator in Brazil (*Superintendencia de Mercado de Valores*). In 2010, Celfin continued its regional expansion by opening an office in Medellin, Colombia, and obtained a brokerage license in Colombia in October 2011.

As of December 31, 2011, Celfin had six partners and two controlling shareholders, Juan Andrés Camus and Jorge Errázuriz.

Celfin's Business Areas

Celfin has a comprehensive portfolio of products, and upon completion of the acquisition, we intend to further expand its operations to include many of the additional products and services we currently offer in Brazil. Celfin's main business units are:

Asset Management

Celfin is one of the leading asset managers in Chile, with over US$4.6 billion in assets under management as of December 31, 2011. Celfin's main clients include Chilean pension funds, insurance companies, family offices and HNWI. Celfin's principal asset management products include publicly traded funds, private investment funds and discretionary portfolios. As part of its offering of publicly traded funds, Celfin manages closed-end funds, which mainly target HNWI and institutional investors, and open-ended funds, which are primarily mutual funds targeted to corporations and individuals. Celfin's private investment funds and discretionary portfolios primarily target individuals. The investment strategy of such funds and portfolios is to invest largely in Latin American and emerging debt and equity capital.

In addition, Celfin manages real estate investments in Chile on behalf of its clients through closed-end and private investment funds. Real estate funds managed by Celfin own several residential and commercial properties, including office buildings, in Santiago, Chile and from time to time enter into joint ventures for residential development projects. In 2011, Celfin launched a real estate, mining and forestry fund focused on making investments in real assets and financial assets in those sectors in Chile.

Wealth Management

Celfin is a leading wealth management firm in Chile, with US$4.8 billion in wealth under management as of December 31, 2011. The wealth management group is divided in two subdivisions, one specializing in HNWI and the other specializing in retail clients. Within its wealth management unit, Celfin offers brokerage and execution services, advisory services and discretionary portfolio management. Celfin has an independent and dedicated investment team, which includes specialists in different asset classes who provide tailored services and advice to its wealth management clients. Celfin is actively expanding its wealth management services in Peru.

Investment Banking

Celfin's investment banking group specializes in M&A, equity and debt capital markets and project finance. In the capital markets area, Celfin is the largest firm in Chile, with US$13.5 billion in executed debt and capital markets transactions from 2006 through 2011. Celfin's most significant recent capital markets transactions include the sale of 28.0% of Lan Airlines for US$1.5 billion in 2010 and the capital increase of Compañía Sud Americana de Vapores (CSAV) of more than US$2.0 billion in three different tranches, the most recent of which closed in February 2012. Celfin is also an active participant in local and cross-border M&A, having served as advisor in connection with the US$555.0 million acquisition of Cementos Melon by the Brescia Group of Peru and the acquisition of Cintra Chile by ISA of Colombia in 2010. In debt capital markets, Celfin has served as underwriter or lead manager in transactions that have raised more than US$5.0 billion of capital for its clients from 2008 through 2011. In 2011, Celfin also created a project finance group specializing in advising and raising capital for infrastructure projects throughout Latin America.

Celfin has received numerous awards from various publications in recent years, including from *Diario Financeiro*, a leading business newspaper in Chile, for being the best investment bank in Chile in 2010 and 2011. In addition, Celfin was awarded best financial institution in Chile by *Latin Finance* and *World Finance* in 2010 and 2011, respectively.

Sales and Trading

Celfin is the leading brokerage house in the Andean region, with a physical presence in Chile, Peru, and Colombia. Since 2001, Celfin has been among the top three brokers in Chile in terms of volume traded, with a market share ranging between 15% and 20%. Celfin's main clients include local and foreign institutional investors and individuals. In Peru, Celfin is also a leading broker in terms of volume traded, with a market share of approximately 10% as of December 31, 2011. Although Celfin only recently commenced brokerage operations in Colombia, it has gained a significant position with respect to institutional investors in Colombia. While Celfin has a strong regional presence in equity brokerage, it has been historically less active in the fixed income brokerage market, where it competes with commercial banks.

As part of its Fixed Income, Currency and Commodities (FICC) group, Celfin trades local government and corporate bonds for third parties, and to a lesser extent, for its own account. Celfin is also active in foreign exchange trading, spot and forward trading for individuals and corporations and simple derivatives intermediation. In addition, Celfin's FICC team structures notes for its clients.

Institutional Fund Distribution

Celfin provides research and other services to institutional investors in the Andean region, mainly pension funds, to assist them in making investments outside of Chile, Peru and Colombia. Celfin is one of the largest participants in this market, with a market share of 15%. As of December 31, 2011, the market value of products distributed by Celfin on behalf of foreign asset managers to institutional investors in Chile, Peru and Colombia was in excess of US$6.8 billion.

Bolsa y Renta

Bolsa y Renta's History and Organization

Bolsa y Renta, Comisionista de Bolsa, was founded by Luis Carlos Vargas Molina in Medellín, Colombia in 1953 to trade Colombian stocks and bonds. Subsequently, it operated under different names until 1992, when it adopted its current name - Bolsa y Renta S.A. Since its establishment, the firm has provided high quality products and services to the Colombian market and has sought to develop highly qualified talent through the implementation of a results oriented philosophy that stresses high ethical principles.

Bolsa y Renta is known for its involvement in the development of the Colombian stock market. Notably, Bolsa y Renta was a founding member of the "Bolsa de Valores de Medellín" in 1961 and also participated in the establishment of the "Bolsa de Valores de Colombia" in 2001.

In 2006, a new group of senior executives acquired a percentage of Bolsa y Renta, with the goal of implementing an innovative business plan based upon cutting-edge market strategies that both supported the firm's traditional activities in the Colombian stocks and bonds market and also aimed at providing new products such as funds, alternative investments and private portfolio management.

In 2008, Bolsa y Renta expanded its operation to Bogotá. Shortly thereafter, the firm began operations in the Colombian foreign exchange market and also began to trade in the derivatives market.

In 2010, Bolsa y Renta led ConConcreto S.A.'s initial public offering in Colombia as well as Banco Davivienda S.A.'s offering. In 2011, the firm led Grupo Nutresa's offering and expanded its business to include investment banking operations.

As of December 31, 2011 Bolsa y Renta had 26 partners, 265 employees and 3 offices in Colombia (located in Medellín, Bogotá and Ibagué).

Business Model and Financial Highlights

Bolsa y Renta is an investment bank, asset manager and wealth manager with a business model focused on satisfying the needs of individual, institutional and corporate clients through the application of disciplined and well-rounded investment processes and client oriented strategies. Bolsa y Renta's products include equity, capital market funds, alternative funds, private portfolios, investment banking and international products. Bolsa y Renta also provides additional services such as equity research and online trading.

Bolsa y Renta has consistently been a major player on the Colombian stock market, ranked as one of the largest broker dealer by volume of equity transactions in Colombia, with a portfolio of US$2.56 billion in wealth under management and US$833.3 million in asset under management as of June 30, 2012.

Bolsa y Renta also has an internationally recognized team of research analysts and is recognized for having the largest economic research coverage in the Colombian stock market.

Competition

The financial services industry, and all of the businesses with which we compete, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, merchant banking and private equity firms and other financial institutions. We compete with some of our competitors globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of personnel, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than we offer and have more extensive investment banking, principal investments, asset management and wealth management services, which may enhance their competitive position. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

We also face intense competition in attracting and retaining qualified employees and other personnel in each of our business units. We compete on the level and nature of compensation and equity-based incentives for key employees and other personnel. Our ability to continue to compete effectively in each of our business units will depend upon our ability to attract new highly qualified employees and retain and motivate our existing talent.

We believe that our main competitors (including their affiliates) across the seven business units in which we operate include the following:

Investment Banking. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A., N M Rothschild & Sons Limited and Banco Santander (Brasil) S.A.;

Corporate Lending. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Santander (Brasil) S.A., Itaú Unibanco S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A. and HSBC Bank Brasil S.A. Banco Múltiplo;

Sales and Trading. Banco do Brasil S.A., Banco Bradesco S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A. and Banco Santander (Brasil) S.A.;

Principal Investments. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A. and Banco Santander (Brasil) S.A.;

Asset Management. Banco do Brasil S.A., Itaú Unibanco S.A., BRAM Bradesco Asset Management S.A. DTVM, HSBC Bank Brasil S.A. Banco Múltiplo, Banco Credit Suisse (Brasil) S.A. and BNY Mellon Serviços Financeiros DTVM S.A.;

Wealth Management. Itaú Unibanco S.A., Banco Credit Suisse (Brasil) S.A., Banco do Brasil S.A., Banco Opportunity S.A., Banco Bradesco S.A. and Banco Safra S.A.; and

PanAmericano. Banco Votorantim S.A., Banco Bradesco S.A., Banco Safra S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Santander (Brasil) S.A.

The competitors mentioned above do not necessarily include Celfin's or Bolsa y Renta's competitors.

Risk Management

In the ordinary course of our business, we are exposed to various risks inherent to banking activities. The way we manage these risks directly affect our activities and operations and, consequently, our results of operations and financial condition. Some of the most significant risks to which we are exposed to include market risk, liquidity risk, credit and counterparty risk, tax risk, operational risk and legal and regulatory risk.

Our management of these risks involves different levels of our management team and encompasses a series of policies and strategies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. In addition, a number of our committees are responsible for monitoring risk exposures and for general oversight of our risk management process. These committees (including their subcommittees), meet regularly and consist of senior members of both our business units and areas that are independent of our business units.

Information Technology

Information technology is an essential component of our business growth, and thus our information technology architecture has continuously been developed to increase the efficiency and reduce the operational risk of our business processes. Over the years we have developed a comprehensive and fully integrated system platform that supports all business lines, which we believe to be perfectly fitted to the Brazilian and international markets.

We have two main data centers, one in Rio de Janeiro and one in São Paulo, which are configured to act as back-up sites to each other. In addition to the Brazilian data centers, we have two others in New York and London to support our international business operations locally as well as function as back-up sites globally.

We believe that our security policy is well-disseminated among and adhered by our personnel. This policy regulates the access and use of all our information technology resources by our personnel, and encompasses human, physical and logical security requirements, as well as encrypted resources.

We are currently designing and developing what we consider to be a next generation platform to support the growth of our business for the next decade. The strategic projects that have been executed include the implementation of the leader Enterprise Resource Planning (ERP) system, the use of virtualization to optimize the use of the servers and the redesign of our international system platform to better support our international expansion.

Marketing

We believe that the strong recognition of our brand is primarily the result of the strong and transparent image we have built with our clients and the awards that we have received, such as the best bank in M&A in Latin America by Global Finance in 2012; the best fund manager in the Largest Fixed Income and Flexible Mixed Allocation categories by Standard & Poors/*Valor Econômico* in 2012; the best investment bank in Brazil by *Latin Finance* in 2010 and *Global Finance* in 2011; #1 M&A – Brazil 2011 from the annual rankings of each of Thomson Reuters, Bloomberg and Dealogic; the Best Fund Manager – Brazil 2011, as well as Best Manager in Active Fixed Income 2011, Best Manager in Conservative Fixed Income 2011, Best Manager in Multi-Market Assets 2011 and Best Manager in Wholesale Funds 2011, all from *Exame* and FGV; Best Fixed Income Fund Manager 2011 and Best Multi-Market Fund Manager 2010 from *Valor Econômico;* #1 M&A Best Investment Bank – Brazil 2010 from *Latin Finance* Best Equity House – LatAm 2010 from *Latin Finance*; Equity House of the Year – Brazil 2010 from *Euromoney*; Best Brazil and LatAm Fixed Income/Credit Research 2010 from *Institutional Investor*, among others. We believe that our strong recognition also helps us to attract new clients without significant marketing initiatives and signals our expertise in the market. Our marketing efforts are usually limited to specific and focused marketing events.

Human Resources

As of June 30, 2012, our personnel consisted of 1,432 employees (including full time employees, interns and outsourced employees but excluding employees of Celfin and Bolsa y Renta) who perform a number of different supporting activities. The table below shows the number of such individuals by geographic location at the dates indicated:

	As of December 31,			As of June 30,
Location	**2009**	**2010**	**2011**	**2012**
Brazil				
Rio de Janeiro	420	481	567	592
São Paulo.	309	421	493	550
Belo Horizonte	5	5	5	5
Porto Alegre	2	5	5	5
Recife.	5	7	7	7
New York[(1)]	**–**	**–**	**89**	**107**
London[(1)]	**–**	**–**	**78**	**80**
Hong Kong[(1)]	**–**	**–**	**9**	**11**
Other locations	**–**	**–**	**2**	**2**
Outsourced	**111**	**60**	**56**	**64**
Total	**852**	**979**	**1,311**	**1,423**

(1) Pursuant to the corporate restructuring of the BTG Pactual Group in September 2011, employees of BTGI's subsidiaries responsible for conducting our international activities in London, New York and Hong Kong were transferred to us.

In order to meet Central Bank's requirements, as well as improve the quality of our credit products, we regularly provide classes, seminars and conferences for our personnel in their respective areas of expertise, including classes related to the prevention of money laundering. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Legal and Regulatory Risk." We also regularly provide financial support to other classes and seminars requested by our personnel that we deem useful for our business operations.

For the year ended December 31, 2011 and the six months ended June 30, 2012, we had payroll expenses of R$213.2 million and R$144.5 million, respectively, including expenses in connection with salaries, payroll charges and benefits. These benefits include: (i) meal vouchers, (ii) food vouchers, and (iii) medical and dental insurance. We also maintain a profit sharing plan regulated by a collective bargaining agreement with the National Banks Federation (*Federação Nacional de Bancos*) and the Banking Trade Union (*Sindicato dos Bancários*).

Our personnel based in Brazil are also members of the Banking Trade Union, and we are members of several bank associations. We believe that we have a good relationship with our employees and relevant unions and we have never experienced a strike or other labor conflict.

Properties

We have offices in Rio de Janeiro, São Paulo, Porto Alegre, Belo Horizonte, Recife and Brasília, Brazil, as well as offices in New York, Los Angeles, London and Hong Kong. In 2012, we expect to open additional Brazilian offices located in Curitiba and Salvador, Brazil. We currently lease all of our offices. Although the space we presently occupy in Brazil and abroad meets our current needs, we are in the process of moving our São Paulo operations to a substantially larger office in 2012 and may seek additional leases in the future as a result of our growth prospects.

All of our lease agreements are valid, with a specified term. There are no liens or encumbrances affecting the properties which we lease, and our use and operation of such properties do not violate any applicable laws.

Insurance

We maintain insurance policies to cover us against certain risks we believe may affect our operations. We only maintain insurance policies for our independent directors that provide coverage against risks associated with fraud, directors' and officers' liability, and other related risks which are customary in the industry in which we operate. Our insurance policies are renewed on an annual basis and contain standard terms and conditions applicable to insurance policies with similar coverage.

Our insurance policy for named perils provides coverage against damages to our furniture and devices within such premises caused by fire, lightning, explosions and electric damages, in our offices, as well any other damage caused by any of the events mentioned. The maximum recovery award under our two insurance policies that we maintain varies according to the covered location. Such award may be up to R$71.0 million.

Intellectual Property

We have deposited the trademark "BTG Pactual" in both word and combined forms before the Brazilian Institute of Industrial Property (*Instituto Nacional de Propriedade Industria*l), and before intellectual property agencies in several other countries, including the United States, Hong Kong, Singapore, Chile, Argentina, Mexico, India and Turkey.

In addition, we have deposited several other brands we use in Brazil and elsewhere such as "Latin Stockwatch," "Brazil Equities Handbook," "Latin American Daily Economic Comment" and "Brazil Follow the Money."

We own the domain names "pactual.com.br" and "btgpactual.com.br," among others, which are duly registered with NIC.br (*Núcleo de Informação e Coordenação do Ponto Br*), the entity responsible for registering domain names in Brazil.

Material Agreements

We are party to several agreements arising out of the normal course of our business, such as a broad range of financial agreements and other agreements, including for telecommunications services, supply of goods and information technology. We do not believe that any of those agreements taken individually is material to our financial condition results of operations.

In addition, we have entered into certain other material acquisition and sale agreements. We are party to material agreements relating to (i) the acquisition of Banco PanAmericano (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE"), (ii) the acquisition of Celfin (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Celfin"), (iii) the creation of One Properties (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties") and (iv) the acquisition of Bolsa y Renta (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bolsa y Renta").

Legal Matters

We are party to various judicial and administrative proceedings, including tax, labor and civil proceedings, arising in the ordinary course of our business. As of June 30, 2012, our provisions for legal proceedings were R$606.5 million, of which R$576.8 million related to tax proceedings, R$18.5 million related to civil and other proceedings and R$11.2 million related to labor proceedings. We believe that our provisions for judicial and administrative proceedings are sufficient to meet our probable losses. At the date of this Offering Memorandum, to the best of our knowledge there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which, in the 12 months prior to the date of this Offering Memorandum may have on an individual basis, or have in the recent past had, a significant adverse effect on us, other than as described herein.

We are party to a number of legal proceedings involving the payment of certain taxes and contributions. Our principal legal proceedings are summarized below:

Tax Proceedings

As June 30, 2012, we were party to approximately 225 legal proceedings involving the payment of certain taxes and contributions, representing contingencies in the total amount of approximately R$1,072.7 million, for which provisions in the amount of approximately R$576.8 million and judicial deposits in the amount of approximately R$583.8 million have been made. The most material of these proceedings are comprised of disputes related to the payment of Social Security Contribution tax (*Contribuição para o Financiamento da Seguridade Social*), or COFINS dating back to the period from February 1999 onwards. Such proceedings involve an aggregate amount of approximately R$525.8 million, which was fully deposited. In 1998, new tax legislation was enacted which required Brazilian companies to pay COFINS on revenues resulted from financial investments (Law No. 9,718/98). Prior to 1998, the Brazilian Federal constitution dictated that Brazilian companies were only required to pay COFINS taxes on revenues from operational activities. We challenged the assessment of COFINS from financial investments and claimed the right to calculate the tax pursuant to the Complementary Law No. 7/70, arguing that in order to expand the COFINS tax calculation basis, the Brazilian legislature was required to observe a constitutionally mandated waiting period prior to enacting the legislation. In December 2008, we obtained partially favorable decisions in the Federal Regional Court of Brazil, and in July 2010, we appealed such decisions before both the Brazilian Superior Court of Justice and to the Brazilian Supreme Court. We are currently awaiting resolution of these appeals, and in the meantime, our rights under the initial partially favorable decision are still in effect. We have been advised by our external legal counsel that we have a possible likelihood of losing these appeals.

In addition, we were also party, as of June 30, 2012, to several additional tax proceedings, representing contingencies in the total amount of approximately R$433.4 million, for which no provisions were made. These proceedings include: (i) proceedings in the amount of R$264.8 million concerning payments related to our profit sharing program (PRL) challenging the social security contribution related to these payments and its non-deductibility from our income and social contribution tax base (IRPJ and CSLL, respectively); (ii) an administrative proceeding in the amount of R$84.4 million involving the Municipality of São Paulo's assessment that certain services rendered in Rio de Janeiro were effectively rendered in São Paulo; and (iii) proceedings in the amount of R$84.2 million concerning the demutualization and IPO of the Bovespa and BM&F, challenging the taxation of PIS, COFINS, IRPJ and CSLL on revenues arising from our sale of these companies' shares. We have been advised by our external legal counsel that we have a possible likelihood of losing these proceedings.

Labor Proceedings

As of June 30, 2012, we were party to approximately 107 labor proceedings, representing contingencies in the total amount of R$61.6 million, for which provisions in the amount of R$11.2 million and judicial deposits in the amount of R$2.9 million have been made. Most of the labor proceedings relate to claims of non-payment of overtime alleged by employees and the recognition of employment relationship by employees from outsourced service providers.

Civil and Other Proceedings

As of June 30, we were party to approximately 71 civil and other proceedings (including certain non-regulatory proceedings with governmental and other supervisory entities), representing estimated contingencies in the total amount of R$92.2 million, for which provisions in the amount of R$18.5 million and judicial deposits in the amount of approximately R$17.5 million have been made.

On April 13, 2012, in connection with an ongoing civil, non-criminal investigation in Italy related to certain trades in the securities of an Italian market issuer made by our controlling shareholder and chief executive officer, André Santos Esteves, in his personal capacity in 2007, Mr. Esteves was informed that an administrative finding was reached. The finding determined that Mr. Esteves misused privileged information (on a secondary basis, as provided under applicable Italian law) in connection with the trades in the securities of Cremonini S.p.A., which was then in negotiations with JBS S.A. regarding a partnership transaction. As a result, Mr. Esteves was fined €350,000 and suspended for a period of six months from serving as a director or executive officer of a company regulated by the Italian Companies and Stock Exchange Commission (*Commissione Nazionale per le Societá e La Borsa*). In addition, his apparent profit from such trades was blocked. Mr. Esteves has filed an administrative appeal against such decision, which is currently under review. Based on the nature of the proceeding, this matter is not expected to result in any criminal liability to Mr. Esteves. We believe that this matter will not have any adverse effect on the BTG Pactual Group, including on Mr. Esteves' capacity to serve in his present role in any of the companies in the BTG Pactual Group. Mr. Esteves believes the allegations are without merit.

Banco PanAmericano is currently involved in a dispute with certain persons with respect to the amounts due on bank certificates of deposit, or CDBs, it issued to such persons between 2005 and 2008. The CDBs bore interest at rates significantly higher, and had longer maturity dates, than similar securities issued by other financial institutions during that period. Banco PanAmericano has commenced legal proceedings to challenge the enforceability of its obligation to pay the contractual interest rate due on such CDBs. Despite such challenge, as of June 30, 2012, Banco PanAmericano had provisions of R$623.3 million with respect to the principal and interest due on such CDBs. In addition, Banco PanAmericano posted a bond of R$21.0 million in the form of Brazilian government securities with respect to certain of such CDBs which have already matured.

Accordingly, we believe that if Banco PanAmericano is successful in the legal proceeding described above, it will be positively affected. Conversely, we believe that if such legal proceeding is decided adversely to Banco PanAmericano, our financial condition and results of operations would not be materially and adversely affected.

Under the Brazilian constitution, any Brazilian has standing to institute an action for the purpose of "protecting the public interest" by seeking to annul an act pertaining to an entity in which the State participates. In April 2011, a Brazilian citizen filed a lawsuit (*ação popular*) against us and certain members of the Brazilian government, Caixa and PanAmericano seeking an injunction to prevent our 2011 acquisition of a co-controlling stake in Banco PanAmericano and PanAmericano's liquidation. The request for injunctive relief was denied, and the plaintiff filed a preliminary appeal. We are currently awaiting a decision on such preliminary appeal, as well as a judgment on the merits at the lower court. We have been advised by our external legal counsel that our chances of loss are remote and, accordingly, have not recorded any provisions.

We are also a party, as of June 30, 2012, to a class action lawsuit filed in São Paulo by the local Public Prosecution Service claiming that we and other banks are required to provide certain information about our clients to the Public Prosecution Services and the Federal Police, absent judicial authorization. We believe that the Public Prosecution Service's requests violate banking confidentiality laws. This lawsuit was dismissed, but the plaintiff has filed an appeal, which is currently pending. We have been advised by our external legal counsel that our chances of success are possible and, accordingly, have not recorded any provisions.

As of June 30, 2012, we were also a party as a potential creditor to approximately 33 civil proceedings totaling approximately R$166.7 million.

Regulatory Proceedings

We are exposed to significant regulatory action and supervision, mainly from the Central Bank and the CVM. As a consequence, we could face claims against us and investigations related to our business, including with regard to our investment recommendations and trading activities.

In 2008, the Central Bank notified us that it had commenced an administrative proceeding against us and our principal shareholder. The administrative proceeding arises from certain day trade transactions carried out during October 2002 to February 2004 to benefit a foreign investor to our detriment. The potential fine is up to 5.0% of the value of the transactions, which would total approximately US$189.0 million. In July 2008, we filed an administrative defense, and, on May 14, 2012, we filed a petition to be acquitted of all allegations. We continue to await a Central Bank ruling. We do not expect this proceeding to adversely affect us.

MANAGEMENT

Senior Management Team

Below is a summary of the business experience and other biographical information of our Senior Management Team, who is responsible for defining the general business policies and guidelines of the BTG Pactual Group, including its long-term strategies, and for controlling and monitoring its overall performance. Each member of our Senior Management Team is a Partner.

André Santos Esteves is our controlling shareholder. Mr. Esteves is the chief executive officer and chairman of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Esteves joined Banco BTG Pactual in 1989, became a partner in 1993 and was appointed a managing partner in 2002. Mr. Esteves served as the chairman and chief executive officer of Banco BTG Pactual from 2006 to 2008. Mr. Esteves was appointed global head of the fixed income group at UBS in August 2007 and global head of the FICC group at UBS in October 2007. Mr. Esteves was a director of FEBRABAN from 2003 to 2007 and a member of the board of the Brazilian Mercantile & Futures Exchange, or BM&F, from 2002 to 2006. Mr. Esteves received his bachelor's degree in mathematics from the Federal University of Rio de Janeiro.

Marcelo Kalim is the chief financial officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Kalim is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Kalim joined Banco BTG Pactual in 1996 (and became a partner in 1998). Mr. Kalim served as chief investment officer of Banco BTG Pactual from 2006 to 2008, where he was responsible for investment decisions in the funds managed by Banco BTG Pactual. Mr. Kalim began his career at Banco BTG Pactual as a fixed-income trader and served as head fund manager and co-head of BTG Pactual Asset Management. Mr. Kalim received his bachelor's degree in economics from the University of São Paulo and his MBA from the Massachusetts Institute of Technology Sloan School of Management.

Roberto Balls Sallouti is the chief operating officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Sallouti is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Sallouti joined Banco BTG Pactual in 1994 and became a partner in 1998. He also served as a managing director of Banco BTG Pactual from 2006 to 2008 and was the joint head of the emerging markets fixed income group and joint head of the Latin America FICC group at UBS AG. During his career at Banco BTG Pactual, Mr. Sallouti served as head of the international and emerging markets fixed income division from 2003 to 2006, and as joint head of Brazil local fixed income markets from 1999 to 2003. Mr. Sallouti received his bachelor's degree in economics, with concentrations in finance and marketing, from The Wharton School at the University of Pennsylvania.

Pérsio Arida is co-head of the asset management business unit of Banco BTG Pactual. In addition, Mr. Arida is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Prior to joining the BTG Pactual Group in 2008, Mr. Arida served in the Brazilian government and worked in the private sector and in academia. While working for the Brazilian government, Mr. Arida served as president of the Central Bank in 1995 and president of the BNDES, the Brazilian development bank, from 1993 to 1994. Mr. Arida was also secretary of the ministry of planning in 1985 and deputy president of the Central Bank in 1986. In the private sector, Mr. Arida worked as a consultant to financial institutions from 1979 to 1984. From 1987 to 1993, Mr. Arida served as director of Brasil Warrant and as a board member of the Unibanco Group. Mr. Arida was a director of Opportunity Asset Management from 1996 to early 1999, and a board member of Itaú Bank from 2001 to early 2009. In academia, Mr. Arida was a professor of economics at the Catholic University of Rio de Janeiro and at the University of São Paulo. In addition, Mr. Arida was a researcher at the Institute for Advanced Study at Princeton University, a fellow at the Woodrow Wilson Center in Washington, D.C. and a senior research fellow at the Oxford Centre for Brazilian Studies at Oxford University. Mr. Arida has received numerous awards and has published several papers and edited books. Mr. Arida received his PhD in economics from the Massachusetts Institute of Technology and his bachelor's degree in economics from the University of São Paulo.

John Huw Gwili Jenkins is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Prior to joining BTG Pactual in 2009, Mr. Jenkins worked at UBS AG from 1996 to 2008, where he held several positions, including chief executive officer, global head of equities, head of equities for the Americas and head of Asia-Pacific equities. Prior to joining UBS AG, Mr. Jenkins worked at BZW Investment Management from 1986 to 1996 and Hill Samuel in 1986. Mr. Jenkins has spent most of his career based in Asia and the United States. Mr. Jenkins received his bachelor's degree with honors in sociology and psychology from the University of Liverpool, his MBA from the London Business School and has recently participated in the Executives in Residence program at the London Business School.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. Prior to joining BTGI in October 2008, Mr. Filho served as vice chairman of Banco BTG Pactual from 2006 to 2008. Mr. Filho joined Banco BTG Pactual in 1997 as a partner and served as executive director of private banking and a member of its executive committee. Prior to 1997, Mr. Filho worked for 28 years at Banco de Crédito Nacional, where he held various positions including vice president for financial management, leasing, insurance, real estate, legal and marketing from 1988 to 1997, and financial director from 1979 to 1988.

Rogério Pessoa Cavalcanti de Albuquerque serves as the co-head of the wealth management unit and executive officer of Banco BTG Pactual. Mr. Pessoa joined Banco BTG Pactual in 1998 and became a partner in 2004. Mr. Pessoa served as head of our wealth management unit from 2004 to 2009. Previously, Mr. Pessoa worked for Delta Bank as vice president of private banking and for Prudential Securities as a broker in the international client accounts division. Mr. Pessoa received his bachelor's degree in economics from the Catholic University of Rio de Janeiro and his MBA from the University of Illinois.

Jonathan David Bisgaier serves as the general counsel and an executive officer of Banco BTG Pactual. Prior to joining BTG Pactual in December 2008, Mr. Bisgaier was a partner at Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in M&A, corporate finance and private equity transactions involving Latin American and multinational clients transacting business in Latin America. From 1997 to 2003, Mr. Bisgaier was an investment banker at Violy, Byorum & Partners, an investment bank focused on Latin America. Mr. Bisgaier also worked at Skadden from 1988 to 1996. Mr. Bisgaier was selected for inclusion in *Chambers Global: The World's Leading Lawyers for Business 2008* and *Chambers America: The World's Leading Lawyers for Business 2008*. Mr. Bisgaier received his JD from the New York University School of Law and his bachelor's degree from New York University College of Business and Public Administration.

Antoine Estier joined the BTG Pactual Group in December 2008. Prior to joining the BTG Pactual Group, Mr. Estier held various positions over the course of his career at UBS AG, including his last position serving as joint head of the emerging markets fixed income division, where Mr. Estier had global responsibility for all local and external debt trading, credit derivatives and structured products in emerging markets. Prior to this position at UBS AG, Mr. Estier served as head of emerging markets in Europe, Middle East and Africa at UBS AG. Mr. Estier also served as head of the Asian fixed income desk and, earlier in his career, as a foreign exchange and interest rates trader in Geneva, Switzerland. Mr. Estier received his bachelor's degree in economics from the University of Geneva.

John Fath joined the BTG Pactual Group in December 2008. Prior to joining the BTG Pactual Group, Mr. Fath served as managing director of the U.S. government and agencies group at UBS AG from 2003 to 2008, where he was responsible for trading the long-end of the U.S. Treasury market. Prior to 2003, Mr. Fath served as senior vice president at Chicago Research Trading (currently Bank of America), where he worked on both the U.S. government short-end and the zero-coupon desks. Mr. Fath is also a member of the treasury market practices group of the Federal Reserve Bank of New York. Mr. Fath received his MBA from the University of Chicago, with concentrations in finance and accounting, and his bachelor's degree in history from Cornell University.

Emmanuel Rose Hermann serves as the co-head of the equities division within our investment banking unit and executive officer of Banco BTG Pactual. Mr. Hermann joined Banco BTG Pactual in 1992 and became a partner in 1998. Mr. Hermann was a managing director from 2006 to 2008 at Banco BTG Pactual, where he served as head of the global emerging markets equity desk, as well as head of the Latin America equities derivatives and structured products desk. During his career at Banco BTG Pactual, Mr. Hermann served as head of the proprietary equity desk from 1998 to 2006 and as a portfolio manager from 1995 to 1998. Mr. Hermann received his bachelor's degree in economics from the Federal University of Rio de Janeiro.

Steve Jacobs serves as chief executive officer of international asset management of Banco BTG Pactual. Prior to joining the BTG Pactual Group in 2009, Mr. Jacobs spent ten years at UBS AG where he was global head of infrastructure and private equity and a member of the executive committee of UBS Global Asset Management. Prior to holding these positions, Mr. Jacobs was based in Zurich, Switzerland, where he served as head of group strategy for UBS AG and was responsible for acquisitions and divestments made by the UBS Group and acted as strategic advisor to the UBS Group's executive board. From 1990 to 1999, Mr. Jacobs worked for Ernst & Young, leading the financial services corporate finance practice in London after having spent three years in Sydney, Australia, developing the Asian financial services business. Mr. Jacobs received his bachelor's degree with honors in finance and accounting from Brighton University.

Eduardo Henrique de Mello Motta Loyo serves as the chief economist and executive officer of Banco BTG Pactual. Mr. Loyo joined Banco BTG Pactual in 2007, where he served as managing director and chief economist for Latin America. From 2005 to 2007, Mr. Loyo was executive director of the IMF, elected by Brazil and eight other countries. Mr. Loyo was deputy president of the Central Bank from 2003 to 2005, and a voting member of the Central Bank's Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM. Since 2001, Mr. Loyo has been a professor of economics at the Catholic University of Rio de Janeiro and was assistant professor of public policy at Harvard University from 1998 to 2003. Mr. Loyo also held visiting faculty positions at Columbia University in 2003 and INSEAD in 2002. Mr. Loyo serves as a director of the Institute for Economic Policy Studies - Casa das Graças, a think tank in Rio de Janeiro. Mr. Loyo received his PhD in economics from Princeton University.

James Marcos de Oliveira is the co-head of the asset management unit of the BTG Pactual Group. Mr. Oliveira joined Banco BTG Pactual in 1992 and became a partner in 1998. Mr. Oliveira was managing director from 2006 to 2008, where he was the joint head of the emerging markets division of the fixed income group and joint head of FICC Latin America. Mr. Oliveira was the head of the Brazil local markets division of the fixed income group from 2003 to 2006 and joint head of the Brazil local markets division of the fixed income group from 1998 to 2003. Mr. Oliveira holds a bachelor's degree in business administration from *Fundação Getulio Vargas* (FGV-SP) São Paulo Business School.

Guilherme da Costa Paes serves as the co-head of the investment banking unit and executive officer of Banco BTG Pactual. Mr. Paes joined Banco BTG Pactual in 1992 and became a Partner in 1998. Mr. Paes headed the oil and infrastructure sectors within the corporate finance division, participating in M&A and capital markets transactions. Mr. Paes received his degree in business administration from Santa Úrsula University in Rio de Janeiro and his MBA from the Brazilian Institute of Capital Markets, or IBMEC, with a concentration in finance.

Renato Monteiro dos Santos serves as the head of FICC and executive officer of Banco BTG Pactual. Mr. Santos joined Banco BTG Pactual in 1997 and became a partner in 2001. Mr. Santos served as head of the Brazil rates desk and head of FICC Latin America from 2006 to 2008. Mr. Santos began his career at Banco BTG Pactual in 1997 as a trader, serving as head of Latin America fixed income markets from 2004 to 2006. Mr. Santos received a bachelor's degree in business administration from FGV-SP and a bachelor's degree in economics from the University of São Paulo.

André Fernandes Lopes Dias is the chief risk officer and an executive officer of Banco BTG Pactual. Mr. Fernandes joined Banco BTG Pactual in 1997 and, in 2004, assumed responsibility for the control of credit risk. In 2006, he became an executive director in charge of credit risk control at UBS AG, a position he held until 2009. Prior to joining Banco BTG Pactual, Mr. Fernandes worked as an auditor at KPMG. Mr. Fernandes received his business administration degree from the Catholic University of Rio de Janeiro.

David Herzberg is based in our London office. Prior to joining the BTG Pactual Group in 2011, Mr. Herzberg worked for seven years at JP Morgan, where he served as global head of the equity derivatives business and founded and led the European equity proprietary trading group. From 2000 to 2003, Mr. Herzberg was head of equity derivatives trading in Europe, Middle East and Asia at AIG. From 1998 to 2000, he co-founded a proprietary trading business at Dresdner Paris focused on European equity volatility arbitrage. Prior to that, Mr. Herzberg began his career in JP Morgan, Paris office, in the technology department, responsible for developing a derivative platform for the front office. Subsequently, he joined the equity derivatives trading team, where he was a senior trader until 1998. Mr. Herzberg received his degree in statistics and probabilities from *École National de la Statistique et l'Administration Economique* in 1990, in Paris, France.

Roberto Isolani is chairman of the international client coverage area of the BTG Pactual Group. Prior to joining the BTG Pactual Group, Mr. Isolani worked at UBS AG from 1992 to 2008, where he most recently served as joint head of global capital markets. At UBS AG, Mr. Isolani also had joint responsibility for the client services group and the fixed income and foreign exchange global sales teams. In addition, he was a member of UBS AG's board of directors. From 1992 to 2002, Mr. Isolani worked in UBS AG's fixed income group in derivatives marketing and debt capital markets before being promoted to head of European debt capital markets in 2002. Mr. Isolani subsequently served as UBS AG's co-head of Italian investment banking in 2002 and global head of debt capital markets in 2007. Mr. Isolani graduated cum laude from the University of Rome (*La Sapienza*) in 1989 and was a lecturer at the university.

Roger Jenkins is a member of the investment committee of the BTG Pactual Group's recently created US$1.5 billion private equity fund. Prior to joining the BTG Pactual Group in 2009, Mr. Jenkins was a member of the executive committee of Barclays Capital and the executive chairman of investment management, investment banking and private banking for Barclays Capital in the Middle East. At Barclays, Mr. Jenkins was also global head of principal investing and private equity. Mr. Jenkins started his career as an economist at British Petroleum in 1977 and joined Barclays Bank International in 1978. In 1983, he worked in the treasury division of Barclays before moving to New York to join Barclays Merchant Bank, where he was appointed head of private placements. In 1987, he moved to Kleinwort Benson, where he served as head of global placements, equity, debt and bank syndications in New York and joined the board of directors of Kleinwort Benson in 1989. In 1990, Mr. Jenkins moved to London to serve as co-head of the financial markets and banking division of Kleinwort Benson. In 1994, Mr. Jenkins re-joined Barclays as head of structured capital markets and, in 1997, became a member of the six-person executive committee of Barclays Capital. In 2005, Mr. Jenkins was appointed head of Barclays private equity. In 2006, Mr. Jenkins was appointed non-executive director of Absa Group Limited, South Africa, a wholly-owned subsidiary of Barclays Bank. In 2007, he established, as part of Barclays' private equity platform, the natural resource principal investing group.

David Martin is based in our New York office and serves as head of the asset management international unit of the BTG Pactual Group and as head of mortgages investments. Prior to joining the BTG Pactual Group, Mr. Martin worked at Barclays where he led the principal mortgage trading group responsible for managing Barclays extensive U.S. mortgage exposure. Mr. Martin spent the previous 16 years at UBS AG, where he worked in the mortgage department, eventually becoming the managing director and global head of mortgages and a member of UBS' board of directors. Mr. Martin received his bachelor's degree in economics from Carnegie Mellon University.

João Marcello Dantas Leite is head of finance and tax of the BTG Pactual Group, an executive officer of Banco BTG Pactual and the investor relations officer of Banco BTG Pactual and BTG Pactual Participations. Mr. Dantas joined Banco BTG Pactual in 1993 as head of the fiscal department, and in 1997 he assumed the position of controller. Prior to joining Banco BTG Pactual, Mr. Dantas worked in tax consultancy at Arthur Andersen. Mr. Dantas is a member of the board of directors of ANBIMA. Mr. Dantas received his bachelor's degree in economics from the University Cândido Mendes.

José Octavio Mendes Vita serves as the co-head of the investment banking unit of Banco BTG Pactual. Mr. Vita joined Banco BTG Pactual in 1989 and became a partner in 1993. Mr. Vita headed the sugar and ethanol, food and beverages, agribusiness, mining, steel and pulp and paper sectors within the corporate finance division of Banco BTG Pactual, participating in M&A and capital markets transactions. Previously, Mr. Vita worked for Bankers Trust Co. of Brazil as a corporate finance analyst and also worked for Morgan Guaranty Trust Company of New York as a treasury assistant. Mr. Vita received his bachelor's degree at FGV-SP in 1981 and his MBA from The Wharton School of the University of Pennsylvania.

Carlos Daniel Rizzo da Fonseca is head of the merchant banking activities of the BTG Pactual Group. Prior to joining the BTG Pactual Group, Mr. Rizzo da Fonseca was a partner at Banco Fator from 1997 to 2005 within the M&A division. From 2006 to 2008, he served as head of M&A for the investment banking division at UBS Pactual. Earlier in his career, Mr. Rizzo da Fonseca worked at PricewaterhouseCoopers. Mr. Rizzo da Fonseca received his bachelor's degree in business from *Pontifícia Universidade Católica* of São Paulo (PUC-SP).

José Zitelmann serves as head of equities proprietary trading of the BTG Pactual Group. Mr. Zitelmann joined the BTG Pactual Group in 1998 in the corporate finance division, and a year later, moved to our asset management business unit. Mr. Zitelmann served as head of equities proprietary trading for Latin America and on the executive committee at UBS Pactual. Mr. Zitelmann received his degree in business management from the FGV-SP São Paulo Business School (*Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas – EASP/FGV*).

The business address of each member of our board of directors is Praia de Botafogo, 501, 5 º e 6º andares, Rio de Janeiro, RJ–22250-040, Brazil.

Board of Directors

Our board of directors is responsible for, among other things, electing and removing our executive officers and supervising the other members of our management team.

The members of our board of directors are elected and removed at our shareholders' meetings in accordance with the terms and conditions of our by-laws, Brazilian Corporations Law, the Consortium Shareholders Agreement (see "—Consortium Shareholders Agreement") and the Partner Brazil Shareholders Agreement (see "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement"). Each such director is elected for a one-year term, and a director may be reelected. Under our by-laws, the board of directors shall be composed of five to eleven members, one of whom is designated as chairman and one of whom is designated as investor relations director.

Under Brazilian Corporations Law, the adoption of a cumulative voting process to elect board members may be required by the shareholders holding at least 10.0% of our voting capital. Under such procedure, each voting share shall be granted a number of votes equal to the number of directors to be elected, and shareholders shall have the right to cumulate votes in a single candidate or distribute them among several candidates. In addition, minority shareholders whose interest in the voting shares represent a minimum of 15.0% of our voting capital stock have the right to elect one director in a separate voting process. Moreover, minority shareholders whose interest in our preferred shares representing at least 10.0% of our capital stock have the right to elect one member of the board of directors by a separate voting process. In addition, in case minority shareholders do not reach the 15.0% and 10.0% thresholds, they may combine their holdings in common and preferred shares so that they jointly hold at least 10.0% of the capital stock and, therefore, are able to elect one director in a separate voting process. As a result, minority shareholders may be entitled to elect up to two members of the board of directors by the separate voting process in addition to any additional members elected through the cumulative voting process. However, whenever the directors are elected by the cumulative voting process and the minority shareholders exercise their right to elect directors in a separate voting process, Brazilian Corporations Law allows holders (or group of holders bound by voting agreements) of more than 50% of the voting shares the right to elect the same number of directors elected by minority shareholders via the cumulative and separate voting processes, plus one.

Our capital stock consists of common shares representing approximately 51.67% of our total capital stock and preferred shares representing approximately 48.33% of our total capital stock. As of the date of this Offering Memorandum, our board of directors was composed of nine members, two of whom were independent directors.

The table below shows the name, position and date of election of each member of our board of directors as of the date of this Offering Memorandum:

Name	Position	Election Date[(1)]
André Santos Esteves	Chairman of the Board	April 2, 2012
Pérsio Arida	Director	April 2, 2012
Marcelo Kalim	Director	April 2, 2012
Roberto Balls Sallouti	Director	April 2, 2012
Cláudio Eugênio Stiller Galeazzi	Director	April 2, 2012
John Huw Gwili Jenkins	Director	April 2, 2012
John Joseph Oros	Director	April 2, 2012
Dr. Linbo He (Ludwig)	Director	April 2, 2012
William T. Royan[(2)]	Director	August 31, 2012

(1) Refers to date of most recent election.

(2) William T. Royan has not yet officially assumed his position as director as such assumption is subject to Central Bank confirmation pursuant to the procedures established under Brazilian law and to the formal assumption of office by him.

The business address of each member of our board of directors is Praia de Botafogo, 501, 5 º e 6º andares, Rio de Janeiro, RJ–22250-040, Brazil.

Although Roberto Balls Sallouti, John Huw Gwili Jenkins and John Joseph Oros were elected to our board of directors on April 29, 2011, pursuant to Brazilian law, each director of a financial institution may only officially take office following approval of such person's service as a director by the Central Bank and the formal assumption of office by such person. As a result of such requirements, Roberto Balls Sallouti only officially assumed his position as a member of our board of directors as of April 2, 2012, and John Huw Gwili Jenkins and John Joseph Oros only officially assumed their positions as of May 2, 2012. Dr. Linbo He (Ludwig) was elected to our board of directors on April 2, 2012 but only officially took office on August 1, 2012. Prior to April 2, 2012, the members of our board of directors were André Santos Esteves, Marcelo Kalim, Persio Arida, Claudio Eugenio Stiller Galeazzi, James Marcus Oliveira and Carlos Fonseca.

Below is a summary of the business experience and other biographical information of our board of directors.

André Santos Esteves is the chairman of our board of directors. For a summary of Mr. Esteves' business experience and other biographical information, see "—Senior Management Team" above.

Pérsio Arida is a member of our board of directors. For a summary of Mr. Arida's business experience and other biographical information, see "—Senior Management Team" above.

Marcelo Kalim is a member of our board of directors. For a summary of Mr. Kalim's business experience and other biographical information, see "—Senior Management Team" above.

Roberto Balls Sallouti is a member of our board of directors. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Cláudio Eugênio Stiller Galeazzi is co-head of the merchant banking area of the principal investments business unit of the BTG Pactual Group and member of the board of directors of Banco BTG Pactual. Prior to joining the BTG Pactual Group in 2010, Mr. Galeazzi held positions in the management of several companies, including managing director of the Brazilian and Argentine subsidiaries of Drew Chemical Corp., president of Cesbra and John Sommers (a joint venture between British Petroleum and Brascan) and vice-president of British Petroleum Mineração in Brazil. He also worked in several corporate restructurings, including Artex, Mocoa, Vila Romana, Cecrisa, Lojas Americanas and CDB – Grupo Pão de Açucar. Mr. Galeazi received his degree in accounting.

John Huw Gwili Jenkins is a member of our board of directors. For a summary of Mr. Jenkins' business experience and other biographical information, see "—Senior Management Team" above

John Joseph Oros is a member of our board of directors. Mr. Oros is a managing director of J.C. Flowers & Co. LLC, a private equity firm based in New York, which he joined in 2000. From 1980 to 2000, Mr. Oros was an investment banker in the financial institutions group of Goldman, Sachs & Co., where he became a general partner in 1986. Between 1978 and 1980, Mr. Oros worked for Merrill Lynch as manager of the finance and mortgage division. Mr. Oros also serves as a director and executive officer of various entities, including OneWest Bank, Saddle River Valley Bank and Flowers National Bank. Mr. Oros was appointed and served as Committee Chairman of the Federal Savings and Loan Advisory Council. Mr. Oros received his bachelor's degree in business management from the University of Wisconsin Business School.

Dr. Linbo He (Ludwig) is a member of our board of directors. Dr. He is currently the managing director and head of the private equity investment department of China Investment Corporation (CIC), responsible for CIC's overseas private equity funds and direct investment in non-commodity sectors, real estate and credit opportunity. Previously, Dr. He has headed CIC's fixed income & absolute return investment department, public market investment department, and asset allocation and strategic research department. Prior to joining CIC, Dr. He was employed by a number of financial institutions in Germany including Commerzbank, HypoVereinsbank and Talanx Investment. During that time he held senior management positions, such as head of Jumbo-Pfandbriefe trading, head of fixed income fund management and member of the investment committee. Dr. He also serves as board member of Citic Capital and PCA Investment. Dr. He received his bachelor of science degree from Peking University and his master of managerial engineering degree from Tsinghua University, both in China, and Dr. rer. pol. (in Finance) from Universitaet zu Koeln/University of Cologne, Germany.

William T. Royan was elected as a member of our board of directors on August 31, 2012 but has not yet officially assumed such position. Mr. Royan is currently the head of investor relations of the Ontario Teachers' Pension Fund (OTTP). Prior to joining OTTP, Mr. Royan held several senior positions at Lehman Brothers in both its investment segment's merger group and equity strategy unit. Previously, he worked in the merger and acquisition groups of JP Morgan and RBC Dominion Securities. Mr. Royan has served as a member of the board of directors of several publicly and privately held companies. He currently serves as a member of the board of directors and chairman of the governance committee of TMX Group, which operates several stock and derivatives markets, including the Toronto Stock Exchange, and provides services relating to settlement, clearance and deposits. Mr. Royan received his bachelor's degree in commerce from the University of Calgary and his MBA from the University of Chicago.

Board of Executive Officers

Under our by-laws, our board of executive officers must be composed of two to sixteen members, one of whom is designated as the chief executive officer and others as executive officers. Our executive officers are our legal representatives, responsible for the day-to-day management of our operations and for implementing the policies and general guidelines set by our board of directors.

In April 2012, we approved a new version of our by-laws at our general shareholders' meeting. Under our April 2012 by-laws, the board of executive officers will continue to be composed of two to sixteen members, who are not required to be our shareholders. In addition, one member of the board of executive officers will be designated as director of investor relations and up to seven members will be designated as senior vice presidents, with the remaining members as executive officers. The designation of the members of our board of executive officers will occur at the time of election.

Under Brazilian Corporations Law, our executive officers must reside in Brazil, but do not need to be shareholders.

Our executive officers are elected by our board of directors for one-year terms and re-election is permitted. Under Brazilian Corporations Law, a maximum of one-third of our directors may also serve as executive officers. In addition, executive officers may be removed at any time pursuant to a decision taken by our board of directors.

Our board of executive officers is composed of thirteen members. The table below shows the names, age, position and date of election of our executive officers as of the date of this Offering Memorandum:

Name	Position	Election Date[(1)]
André Santos Esteves	Chief Executive Officer	April 2, 2012
Antonio Carlos Canto Porto Filho	Executive Officer	April 2, 2012
Eduardo Henrique de Mello Motta Loyo	Executive Officer	April 2, 2012
Emmanuel Rose Hermann	Executive Officer	April 2, 2012
Guilherme da Costa Paes	Executive Officer	April 2, 2012
Jonathan David Bisgaier	Executive Officer	April 2, 2012
João Marcello Dantas Leite	Investor Relations Officer	April 2, 2012
Marcelo Kalim	Executive Officer	April 2, 2012
Oswaldo de Assis Filho	Executive Officer	April 2, 2012
Renato Monteiro dos Santos	Executive Officer	April 2, 2012
Roberto Balls Sallouti	Executive Officer	April 2, 2012
Rogério Pessoa Cavalcanti de Albuquerque	Executive Officer	April 2, 2012
André Fernandes Lopes Dias	Executive Officer	April 2, 2012

(1) Refers to date of most recent election.

The business address of each member of our board of executive officers is Praia de Botafogo, 501, 5 º e 6º andares, Rio de Janeiro, RJ–22250-040, Brazil.

Below is a summary of the business experience and other biographical information of our board of executive officers.

André Santos Esteves is our chief executive officer. For a summary of Mr. Esteves' business experience and other biographical information, see "—Senior Management Team" above.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. For a summary of Mr. Filho's business experience and other biographical information, see "—Senior Management Team" above.

Eduardo Henrique de Mello Motta Loyo is an executive officer of Banco BTG Pactual. For a summary of Mr. Loyo's business experience and other biographical information, see "—Senior Management Team" above.

Emmanuel Rose Hermann is an executive officer of Banco BTG Pactual. For a summary of Mr. Hermann's business experience and other biographical information, see "—Senior Management Team" above.

Guilherme da Costa Paes is an executive officer of Banco BTG Pactual. For a summary of Mr. Paes' business experience and other biographical information, see "—Senior Management Team" above.

Jonathan David Bisgaier is an executive officer of Banco BTG Pactual. For a summary of Mr. Bisgaier's business experience and other biographical information, see "—Senior Management Team" above.

João Marcello Dantas Leite is an executive officer of Banco BTG Pactual and also serves as Banco BTG Pactual's investor relations officer. For a summary of Mr. Dantas' business experience and other biographical information, see "—Senior Management Team" above.

Marcelo Kalim is an executive officer of Banco BTG Pactual. For a summary of Mr. Kalim's business experience and other biographical information, see "—Senior Management Team" above.

Oswaldo de Assis Filho is an executive officer of Banco BTG Pactual. Prior to this, Mr. Assis Filho was responsible for the commercial coverage of the insurance, banking and textile sectors of the investment banking business unit of BTG Pactual. Mr. Assis Filho has worked in financial institutions since 1976 and, before joining Banco BTG Pactual, he was vice-president of Banco de Crédito Nacional. He graduated from Instituto Tecnológico da Aeronáutica, where he received a bachelor's degree in electrical engineering in 1973. He also has a master degree in economics from Universidade de São Paulo. Mr. Assis Filho has been a partner of Banco BTG Pactual since 1997.

Renato Monteiro dos Santos is an executive officer of Banco BTG Pactual. For a summary of Mr. Santos' business experience and other biographical information, see "—Senior Management Team" above.

Roberto Balls Sallouti is an executive officer of Banco BTG Pactual. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Rogério Pessoa Cavalcanti de Albuquerque is an executive officer of Banco BTG Pactual. For a summary of Mr. Albuquerque's business experience and other biographical information, see "—Senior Management Team" above.

André Fernandes Lopes Dias is an executive officer of Banco BTG Pactual. For a summary of Mr. Fernandes' business experience and other biographical information, see "—Senior Management Team" above.

Compensation

General

In 2011, we paid an aggregate of R$2.9 million to the members of our Senior Management Team as compensation. Most members of our Senior Management Team also serve as one of either our directors or officers.

Under Brazilian law, our shareholders are responsible for establishing the aggregate amount of compensation that may be paid to our executive officers and directors. Our board of directors in turn allocates such aggregate amount among our directors and executive officers.

Compensation Committee

On November 25, 2010, the CMN issued Resolution No. 3,921, which established new rules relating to the compensation of directors and officers of financial institutions and other institutions authorized to operate by the Central Bank. The compensation of directors and officers may be fixed or variable, and should be in any case compatible with the financial institution's risk management policies. Variable compensation may be based on specific criteria set forth in Resolution No. 3,921. At least 50.0% of variable compensation must be paid in stock or stock-based instruments and at least 40.0% of variable compensation must be deferred for future payment by at least three years. These new rules took effect on January 1, 2012. In addition, financial institutions that are publicly held companies or required by the Central Bank to establish an audit committee must also establish a compensation committee prior to the first shareholders' meeting of 2012. Such committee must follow the requirements set out in Resolution No. 3,921.

In April 2012, we approved a new version of our by-laws at our general shareholders' meeting. Under our April 2012 by-laws, and pursuant to the requirements of Resolution No. 3,921, we created a compensation committee specifically responsible for the compensation of key executives. The committee will consist of three to six members elected by our board of directors, all of whom will be members of our board of directors, except for one who must be a manager.

Our compensation committee's principal functions will be (i) approval of the granting of stock options, (ii) discussion and analysis of our existing compensation models and (iii) evaluation and approval of the compensation packages proposed by the chief executive officer for our executive officers, including the fixed and variable compensation components, benefits and long-term incentive compensation.

In addition, the compensation committee shall evaluate the impact of CMN Resolution No. 3,921 and propose measures in order to ensure our compliance with such rules.

Committees

Fiscal Council

Under Brazilian Corporations Law, a company may form a fiscal council to operate as a corporate body independent of its management and its independent auditors. A fiscal council may be either permanent or non-permanent. A non-permanent fiscal council is formed at the request of shareholders that represent at least 10.0% of the voting shares or 5.0% of the non-voting shares. Such request may be made at any shareholders' meeting. We do not currently have a fiscal council and have, therefore, not elected any fiscal council members. When formed, the fiscal council will be non-permanent pursuant to our by-laws and composed of a minimum of three and a maximum of five members and their respective alternates, according to Brazilian Corporations Law.

The primary responsibilities of a fiscal council are monitoring management activities, reviewing the company's financial statements and reporting its findings to the shareholders. Under Brazilian Corporations Law, we would be required to pay fiscal council members, as compensation, a minimum of 10.0% of the average annual amount paid to our executive officers.

Under Brazilian Corporations Law, the fiscal council may not include members that are (i) on our board of directors, (ii) on our board of executive officers, (iii) employed by us, (iv) employed by a subsidiary or company under common control with us or (v) spouses or close family members of any member of our board of directors or board of executive officers.

Audit Committee

On May 27, 2004, the CMN issued Resolution No. 3,198, as amended, which regulates the rendering of independent auditors' services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as to clearing houses and clearing and custody service providers. Resolution No. 3,198 requires financial institutions holding a reference shareholders' equity or managing third parties' wealth in amounts equal to or greater than R$1,000,000,000, among other entities, to create a corporate body designated as an audit committee. Pending approval from the Central Bank, our audit committee will be composed of three to six members elected by our board of directors. The audit committee will be responsible for setting the annual remuneration of our directors.

In general terms, the audit committee's duties are to take certain measures and to perform specific functions in order to ensure compliance of the relevant financial institution with the applicable accounting regulations.

Consortium Shareholders Agreement

We and certain other parties have entered into a shareholders agreement with the members of the Consortium, referred to herein as the Consortium Shareholders Agreement. The Consortium Shareholders Agreement provides the members of the Consortium with certain rights with respect to the designation of a nominee to serve on our board of directors.

The Consortium Shareholders Agreement provides that our board of directors shall consist of between five and eleven directors, as determined by BTG Pactual Holding. In addition, the Consortium Shareholders Agreement requires that so long as the members of the Consortium continue to hold, in the aggregate, directly or indirectly, securities of BTGI and Banco BTG Pactual that represent at least 5.0% of the total outstanding securities of BTGI and Banco BTG Pactual, referred to herein as the Requisite Ownership Percentage, our board of directors shall nominate one individual designated by the representative of the members of the Consortium such that the members of the Consortium will have one designee on our board. Except for any directors nominated by our unit holders, all other members of such board of directors (including any vacancies) will be nominated by BTG Pactual Holding. Subject to certain limited exceptions set forth in the Consortium Shareholders Agreement, for so long as the representative of the members of the Consortium has the right to nominate a director pursuant to the foregoing, the representative of the members of the Consortium shall have the exclusive right to remove the director designated by such representative and to nominate an individual to fill the vacancy created by such removal.

In addition, the parties to the Consortium Shareholders Agreement agreed, for so long as the members of the Consortium hold, in the aggregate, the Requisite Ownership Percentage, to (x) refrain from requesting the adoption of the cumulative voting procedure (*voto múltiplo*) or the election by separate ballot procedure (*eleição em separado*) set forth in Brazilian Corporations Law, and (y) in case such voting procedures are used in any election of our directors, cast their votes in a manner consistent with the Consortium Shareholders Agreement.

Subject to restrictions that may be imposed under applicable law, for so long as the members of the Consortium in the aggregate continue to hold the Requisite Ownership Percentage, the representative of the members of the Consortium has the right to designate one non-voting observer to attend meetings of our board of directors.

In connection with our initial public offering, we (along with BTG Pactual Participations, BTG Pactual Holding and BTG GP) entered into a letter agreement with the affiliates of China Investment Corporation that purchased our equity in December 2010. Under the terms of the letter agreement, so long as such affiliates continue to hold at least fifty percent of our equity that was originally purchased by such affiliates in 2010, we have agreed, subject to certain conditions, to nominate one individual identified by such affiliates (who is reasonably acceptable to us) for election to our board of directors at our annual shareholders meeting in 2012 and 2013, and BTG Pactual Holding has agreed to vote its shares in favor of the election of such individual to such board of directors.

For additional information regarding other shareholders' agreements affecting our management and control, see "Our Partnership— Shareholders Agreements."

OUR PARTNERSHIP

Our Partnership

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

Description of Partnership Model

Partners have been admitted to and left our partnership by purchasing and selling equity interests in us, BTGI and BTG Pactual Holding. As described below, the partnership has the right to purchase all or part of any Partner's Partnership Equity at any time and for any reason, without the consent of the affected Partner. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group has the right to sell all of its Partnership Equity to certain entities that are wholly-owned by the Partners but may not sell to any other third party except as described below. These transactions were effected at the book value of such interests at the time of the relevant transaction.

The purchase and sale of Partnership Equity occurs in a number of circumstances. First, from time to time, and no less frequently than annually, we conduct a review of the performance of Partners and employees in our organization and determine to reallocate the Partnership Equity among our Partners and to promote certain high performing employees, who previously did not own Partnership Equity, to Partner status, simultaneously reducing the Partnership Equity held by certain other Partners. These reallocations are referred to herein as Reallocation Transfers. Similarly, from time to time, individuals may be admitted as new Partners in connection with the commencement of their activities as executives within the BTG Pactual Group. These reallocations and decisions to admit new Partners are done on a meritocratic basis, following discussions among the Senior Management Team, in an effort to reward individuals who are determined to be making significant contribution to the BTG Pactual Group and who are also perceived to share our partnership culture. In addition, in the past the partnership has, in each case, exercised its right to purchase at book value all of the Partnership Equity held by any Partner when the full time employment of such Partner with the BTG Pactual Group was terminated, regardless of the reason for such termination.

The entities utilized as the purchaser of the Partnership Equity transferred in the circumstances described above are BTG Pactual Holding (with respect to the Partnership Equity that consists of our shares and shares of BTG Pactual Holding) and the Merchant Banking Partnership (with respect to the Partnership Equity that consists of BTGI limited partnership interests). The purchasing entities are wholly-owned by our Partners. Partners entering the partnership or increasing their interest through the allocation and purchase of new interests can receive financing for such purchases from BTGI to the extent they did not have the resources available to effect such purchases.

Partnership Model Post Initial Public Offering

Our partnership model remained unchanged as a result of our initial public offering as well the December 2010 transaction in which the members of the Consortium and the Participating Partners invested a total of US$1.8 billion (R$3.0 billion) in the BTG Pactual Group. In order to ensure that the interests of our Partners and our public shareholders are aligned, and to perpetuate the model that we believe is the key to our success, we have implemented several concrete steps to maintain our partnership model. These mechanisms result in the economic burden of incentivizing our most important executives (other than to the extent of costs relating to salaries, bonuses and the cost of BTGI providing financing to Partners that purchase Partnership Equity) being borne by our Partners (through future dilution), rather than being shared with unit holders. We believe that the continuation of our partnership model following our initial public offering distinguishes the BTG Pactual Group significantly from other investment banking and asset management firms that have consummated initial public offerings both in Brazil and the international markets, because the typical model implemented in these other cases allowed virtually all of the equity held in the former partnership to vest and become saleable in the market at prevailing market prices (rather than book value) within a relatively short time following the completion of such initial public offering.

Continuation of Purchase/Sale Right

We will continue our practice of having the right to cause our current and future Partners to sell all or a portion of their Partnership Equity (at any time and for any reason) at the book value of such interests (unless the market price at such time is less than book value, in which case the sale will be effected at such lower price), despite the fact that following our initial public offering the value of such interests implied by the trading price of the units in the market may be substantially in excess of such book value. This arrangement will allow us to continue the practice of reallocating Partnership Equity among Partners and to new individuals who become Partners on a meritocratic basis which we believe substantially enhances our ability to attract and retain talented executives. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group will have the right to sell all of its Partnership Equity to the entities (and only to such entities) wholly-owned by the Partners as described above. These purchase and sale transactions will be effected at the book value of such interests at the time of the transaction in question (unless the market price of the units at such time is less than book value, in which case the transaction will be effected at such lower price). Certain of the individuals who purchase Partnership Equity may require loans to purchase such equity interests to the extent they do not have the resources available to effect such purchases. BTGI may make loans to such individuals.

Restrictions on Sales of Partnership Equity

The Partnership Equity is subject to substantial transfer restrictions. These restrictions are primarily designed to maintain our partnership by preventing Partners from selling their Partnership Equity other than as described above with respect to sales among Partners (through BTG Pactual Holding and the Merchant Banking Partnership), subject to certain limited exceptions described below. The Partnership Equity represents, directly or indirectly, approximately 73.72% of the issued and outstanding economic interest in us (consisting of approximately 83.05% of our common shares and approximately 63.74% of our preferred shares). The Partnership Equity does not include, and the transfer restrictions described in this section do not apply to, our equity securities purchased by the Participating Partners at the same time and on the same terms and conditions as the members of the Consortium or the 9,000,000 units acquired by BTG Pactual Holding in our initial public offering. Such transfer restrictions will also not apply to any of the units that may subsequently purchased in the market or from third parties who are not Partners or affiliates of Partners.

The Partnership Equity may not, directly or indirectly, be transferred or otherwise sold by any Partner, except for "Permitted Partner Transfers" which are limited to transfers:

- to certain related parties that are permitted transferees (as defined below) of the transferring Partner;
- pursuant to Reallocation Transfers as described above;
- on a pro rata basis by the Partners to a "Strategic Investor" (as defined below), provided that any such transfer is subject to the approval of our controlling shareholder;
- in connection with a "Change of Control" (as defined below), including pursuant to a mandatory tender offer initiated by the person or group that is acquiring control of us in connection therewith, provided that any such Change of Control will require the approval of our controlling shareholder;
- to a lender in connection with the foreclosure by such lender on a loan that created a lien on such Partnership Equity, provided that such transaction has been approved by our controlling shareholder; and
- pursuant to a certain Partner withdrawal agreement to the extent necessary to facilitate any of the foregoing permitted transfers.

We currently intend to keep these provisions in place with respect to all of the Partnership Equity for the foreseeable future, and are aware of no conditions that would cause us to believe that there is any likelihood that we will modify such provisions.

However, from time to time we consider the specific provisions of our partnership and believe it is important to retain the flexibility to implement changes that we believe to be in the best interests of our business. Accordingly, it is possible, although currently not anticipated or even considered likely, that our controlling shareholder may determine to modify such provisions at some future date. In the event we determine to modify such provisions, we anticipate that a reasonable time in advance of making such change effective, we will notify the market that the rules regarding the restrictions on Partnership Equity described herein will change.

For purposes of the foregoing:

- "Change of Control" means a transaction or series of related transactions (other than Reallocation Transfers) pursuant to which our current or future Partners (including any entity that is wholly-owned by such Partners as a group) dispose of or sell, whether directly or indirectly, more than 50% of our common shares to any person or group of persons that is or are not prior to the time of such transaction or the beginning of the series of related transaction, and will not in connection with such transaction or series of related transaction, become, employees, officers, consultants, Partners or other individuals that provide similar full-time services to the BTG Pactual Group;

- "Permitted Transferee" of a Partner means (i) any spouse (current or former), sibling, lineal descendants, ancestors, heirs, testamentary trustees or legatees of such Partner or of any spouse of such Partner, (ii) any entity that is controlled and wholly-owned by such Partner or any person described in clause (i) above, for so long as it remains such or (iii) any trust (including a charitable remainder trust) or similar arrangement of which such Partner (or any distributee of such trust if such distributee is a person described in clause (i) above) is the primary beneficiary or has an interest; and

- "Strategic Investor" means any *bona fide* third party investor that is unaffiliated with the BTG Pactual Group if BTG Pactual Holding and BTG GP jointly and reasonably determine in good faith that the inclusion of such investor as a holder of our equity securities can reasonably be expected to enhance the earnings, customer base, business reputation, distribution network or prospects of, or products offered by, the BTG Pactual Group.

Partner Non-Competition Agreements

Each of the members of the Senior Management Team have entered into restrictive covenant agreements and for a period of 12 months following the date such member of the Senior Management Team is no longer providing full-time services to, or acting in a similar capacity with respect to, the BTG Pactual Group, such member of the Senior Management Team has agreed to the following restrictions, among other customary restrictions (including those relating to treatment of confidential information and non-disparagement), any of which may be waived by us at any time:

- *Non-Competition:* Such member of the Senior Management Team may not, directly or indirectly, (i) own any equity or debt interests with negative control in any company that engages in the lines of business that are competitive with the business conducted by the BTG Pactual Group in the geographic areas in which the BTG Pactual Group operates as of the relevant time (a "competitive enterprise"), other than certain acquisitions of capital stock of publicly traded competitive enterprises or (ii) perform services for a competitive enterprise, to the extent such service is similar or substantially related to any activity such member of the Senior Management Team performed (or had direct or indirect managerial or supervisory responsibility) when with the BTG Pactual Group or which calls for similar specialized knowledge or skill as those used by such member of the Senior Management Team in his activities with the BTG Pactual Group during the one-year period prior to his departure from the BTG Pactual Group;

- *Non-Solicitation of Employees*: Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) hire, or assist in the hiring of, any employee of the BTG Pactual Group or (ii) encourage any employee of the BTG Pactual Group to terminate his or her employment with the BTG Pactual Group, including by soliciting any such employee, subject to certain customary exceptions; and

- *Non-Solicitation of Clients*: Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) solicit any business from any active or potential clients of the BTG Pactual Group with which such member of the Senior Management Team had contact or with respect to which the member had confidential information, in each case, prior to such member of the Senior Management Team's departure from the BTG Pactual Group or (ii) request, recommend or encourage any client of the BTG Pactual Group to reduce or terminate any business that such client engages with the BTG Pactual Group.

Shareholders Agreements

Partner Brazil Shareholders Agreement

The Partners, BTG Pactual Holding and us are parties to a shareholders agreement, or the Partner Brazil Shareholders Agreement, which governs the relationship among the Partners with respect to their ownership of the shares of BTG Pactual Holding, and the manner in which the Partners exercise control of BTG Pactual Holding and, indirectly, us. The Partner Brazil Shareholders Agreement does not apply to the Partners in their capacity as Participating Partners in respect of our common shares and Series A preferred shares acquired by the Participating Partners on the same terms as the members of the Consortium in December 2010 or otherwise in respect of any of our shares purchased by Partners in the market following our initial public offering.

Control of Banco BTG Pactual

Except as set forth below, the Partner Brazil Shareholders Agreement provides that prior to the time André Santos Esteves ceases to be engaged on a full time basis as our executive officer, referred to herein as a Termination Event, Mr. Esteves will generally control our management and direct the actions of us and our subsidiaries (including investment vehicles in which we own a majority of the economic interests) (such entities being collectively referred to herein as the "Banco entities"), to the extent applicable though his ownership of a majority of the voting interests of BTG Pactual Holding, which directly owns a majority of our common shares. Following a Termination Event and provided that requisite approvals are obtained from the Central Bank, control of the management of the Banco entities will be exercised by the Top Seven Partners that collectively hold a majority of the voting interests of BTG Pactual Holding. A Termination Event will also occur if Mr. Esteves transfers any of his voting interests in BTG Pactual Holding without the prior consent of three of the Top Seven Partners.

Board of Directors

BTG Pactual Holding is managed by a board of directors, which, prior to a Termination Event, will consist of three members, two of which are elected and removed by Mr. Esteves and one of which is elected and removed by a majority of the Top Seven Partners. Following a Termination Event, the board of directors of BTG Pactual Holding will consist of seven members, with each Top Seven Partner being entitled to elect and remove one such member.

The Partner Brazil Shareholders Agreement provides that the members of our board of directors, other than any director appointed by the members of the Consortium or nominated by unit holders, will be appointed and removed by BTG Pactual Holding, as the holder of the majority of our outstanding common shares (any such director, referred to as a Partner director), and shall act at the direction of Mr. Esteves, prior to the occurrence of a Termination Event, or the majority of the Top Seven Partners, following a Termination Event.

Preliminary Meetings; Voting Agreement

Two days prior to any shareholders or board of directors meeting (or board of executive officers meeting, to the extent applicable) of any Banco entity, Mr. Esteves and the Top Seven Partners will hold a preliminary meeting to determine whether to approve, and the manner in which to direct, the actions being considered at such board of directors or shareholders meeting. Prior to a Termination Event, Mr. Esteves will control the determination of any such preliminary meeting, except that certain extraordinary actions to be taken by the Banco entities (and certain other activities that relate to the structure and governance of our partnership) also require the approval of three of the seven Top Seven Partners. If any Top Seven Partner is absent from such preliminary meeting, Mr. Esteves is entitled to approve the matter on behalf of the absent Top Seven Partner. Following a Termination Event, the Top Seven Partners holding a majority of the voting interests of BTG Pactual Holding will control the determination of all preliminary meetings.

The Partner Brazil Shareholders Agreement provides that if a matter is not approved at a preliminary meeting in accordance with the foregoing, neither the Banco entity nor any Partner directors or officers of such Banco entity may take any action with respect to such non-approved matter, and the Partners, BTG Pactual Holding and the Partner directors are obligated to vote against the approval of any such non-approved matter at any shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. If, on the other hand, the matter that was the object of such preliminary meeting was approved, the Partners, BTG Pactual Holding and the Partner directors, as applicable, are required to act to ensure that the matter is approved at the relevant shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. All of the Partners and BTG Pactual Holding have granted a power of attorney to Mr. Esteves (prior to a Termination Event) or the Top Seven Partners (following a Termination Event) to ensure that all of the equity securities of BTG Pactual Holding held by such Partners and all of our equity securities held by BTG Pactual Holding are voted in accordance with the decisions reached at any such preliminary meeting.

Ownership of Our Common Shares by BTG Pactual Holding

The Partner Brazil Shareholders Agreement provides that if we issue any common shares and preferred shares (other than a pro rata issuance to all shareholders), BTG Pactual Holding will exercise its right to convert a certain number of our Series B preferred shares into our common shares. Such conversion is necessary so that (i) BTG Pactual Holding maintains control of us as required by applicable Brazilian laws and (ii) the number of our common shares continues to be no less than 50% of the total number of our common shares and our preferred shares issued and outstanding at any given time.

PRINCIPAL SHAREHOLDERS

Banco BTG Pactual

As of the date of this Offering Memorandum, our outstanding capital stock was R$5,962,499,681.03, fully subscribed and paid-in, represented by 2,648,400,000 shares, all nominative, in book-entry form and without par value, consisting of 1,368,504,000 common shares, 464,045,596 Series A preferred shares and 815,850,404 Series B preferred shares. Our capital stock can be increased (without requiring any amendment to our by-laws) up to the limit of 10,000,000,000 shares, subject to the limitation provided for in article 15, §2, of Brazilian Corporations Law (which restricts the number of preferred shares without voting rights to fifty percent of all issued shares), by resolution of our board of directors, which shall establish the issue price, the number of common shares and/or preferred shares to be issued and any additional conditions for the subscription and payment of such shares. Any increase in our capital stock must be approved by the Central Bank.

The following table sets forth information relating to the ownership of our shares by (i) each beneficial owner of 5.0% or more of our preferred shares or our common shares, (ii) the holders of units that are part of the free float (excluding BTG Pactual Holding) as a group, (iii) the Participating Partners as a group, and (iv) other directors and executive officers of Banco BTG Pactual as a group. The table below does not account for any of our common shares or our preferred shares that may be issued (i) upon conversion of our Series B preferred shares into Series A preferred shares or common shares or (ii) in connection with the consummation of the Celfin transaction or the transactions described under "Management Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Potential Acquisition."

Name	Common	Series A preferred	Series B preferred	% of common	% of preferred
André Santos Esteves(1)	1,154,267,068	35,571,732	815,850,404	84.35	66.52
Members of the Consortium(2)	107,631,608	215,263,216	–	7.86	16.82
Participating Partners as a group (other than André Santos Esteves) (3)	12,105,324	24,210,648	–	*	*
Directors and executive officers as a group (other than André Santos Esteves)(4)	(4)	(4)	(4)	(4)	(4)
Free float (excluding BTG Pactual Holding) .	94,500,000	189,000,000	–	6.91	14.77
Total(5)	**1,368,504,000**	**464,045,596**	**815,850,404**	**100.00**	**100.00**

* Represents less than 5%

(1) Our common shares, Series A preferred shares and Series B preferred shares reported in the table above as beneficially owned by Mr. Esteves as of the date of this Offering Memorandum include (i) 8,785,866 common shares and 17,571,732 Series A preferred shares held directly by Mr. Esteves (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members), in his capacity as a Participating Partner, and (ii) 1,145,481,202 common shares, 18,000,000 Series A preferred shares and 815,850,404 Series B preferred shares, which represent all of the common shares, Series A preferred shares and Series B preferred shares held directly by BTG Pactual Holding and which may be deemed to be beneficially owned by Mr. Esteves by virtue of Mr. Esteves' (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members) ability to exercise control over BTG Pactual Holding as a result of his ownership of a majority of the outstanding voting common shares of BTG Pactual Holding. Mr. Esteves disclaims beneficial ownership of our common shares, Series A preferred shares and Series B preferred shares which may be deemed to be beneficially owned by Mr. Esteves indirectly, through BTG Pactual Holding, except to the extent of his pecuniary interest in BTG Pactual Holding. Mr. Esteves' pecuniary interest in BTG Pactual Holding is approximately 28.84%.

(2) As of the date of this Offering Memorandum, each member of the members of the Consortium owns the following equity interest in us: (i) Pacific Mezz Investco S.A.R.L. holds 24,870,467 common shares and 49,740,934 Series A preferred shares; (ii) Beryl County LLP holds 24,870,467 common shares and 49,740,934 Series A preferred shares; (iii) Ontario Teachers' Pension Plan Board (OTPP) holds 16,580,311 common shares and 33,160,622 Series A preferred shares; (iv) Hanover Investments (Luxembourg) S.A. holds 12,435,233 common shares and 24,870,466 Series A preferred shares; (v) Europa Lux III S.a.r.l. holds 16,333,039 common shares and 32,666,078 Series A preferred shares; (vi) RIT Capital Partners plc holds 1,171,435 common shares and 2,342,870 Series A preferred shares; (vii) Marais LLC holds 2,915,973 common shares and 5,831,946 Series A preferred shares; (viii) Sierra Nevada Investments LLC holds 6,632,124 common shares and 13,264,248 Series A preferred shares; (ix) EXOR S.A. holds 270,332 common shares and 540,664 Series A preferred shares and (x) Rendefeld, S.A. holds 1,552,227 common shares and 3,104,454 Series A preferred shares. The ownership table set forth above aggregates, for informational purposes only, the equity interests in us held by each of the members of the Consortium. However, such presentation should not be viewed as an indication that the members of the Consortium are a group or share beneficial ownership of the aggregate equity interests reported in such table. Each member of the Consortium disclaims beneficial ownership of any equity interests in us owned by any

other member of the Consortium, and each member of the Consortium's beneficial ownership of equity interests in us is limited to the number of such interests held by such member of the Consortium as expressly set forth in this footnote 2.

(3) Our common shares and Series A preferred shares reported in the table above as beneficially owned by the Participating Partners as a group as of the date of this Offering Memorandum represent the number of such shares held directly by the Participating Partners, as a group, (including through their family members or through trusts or other entities established for their benefit or the benefit of their family members), in their capacity as a Participating Partners and does not include any of our equity interests that are held by BTG Pactual Holding and may be deemed to be beneficially owned by the Participating Partners indirectly by virtue of their pecuniary interest in BTG Pactual Holding.

(4) The directors and executive officers as a group includes those individuals listed under "Management—Board of Directors; Board of Executive Officers" other than Mr. Esteves (see footnote 1). While John Joseph Oros, Dr. Linbo He (Ludwig) and William T. Royan may be affiliated with certain members of the Consortium, they disclaim beneficial ownership of any of our shares held by such affiliated members of the Consortium and as a result are not deemed (for purposes of the table above) to have any beneficial ownership of any of our shares. See "Management—Board of Directors." The remaining individuals are Partners and certain of them are Participating Partners and, as of the date of this Offering Memorandum, such remaining individuals as a group collectively (i) directly hold 0.91% of the common shares and Series A preferred shares reported in the table above as beneficially owned by the Participating Partners (other than Mr. Esteves) as a group (see footnote 3) by virtue of the fact that certain of such remaining individuals are Participating Partners and (ii) may be deemed to have beneficial ownership, indirectly through their pecuniary interest in BTG Pactual Holding, of 26.90% of the common shares and preferred shares held directly by BTG Pactual Holding, which represents, collectively, 24.02% of our common shares and preferred shares outstanding as of the date of this Offering Memorandum.

(5) Since André Santos Esteves controls BTG Pactual Holding and may be deemed to have beneficial ownership of all of our shares held by BTG Pactual Holding, for purposes of calculating the total shares held by all persons in the table above, the number of our shares that may be deemed to be beneficially owned by the other directors and executive officers by virtue of their pecuniary interest in BTG Pactual Holding (as reported in footnote 4 above) have been ignored to avoid double counting.

RELATED PARTY TRANSACTIONS

We engage in related party transactions with certain of our affiliates in the ordinary course of our business, including financing facilities and commercial and services agreements. We believe that these transactions are carried out on an arms-length basis, in accordance with ordinary market practices.

We summarize below certain material agreements entered into with related parties:

Loans

From time to time, including in connection with the acquisition of Banco BTG Pactual, and in connection with the purchase of shares in each of us and BTG Pactual Holding as part of Reallocation Transfers (see "Our Partnership"), BTG Loanco, LLC, a Delaware limited liability company and wholly- owned subsidiary of BTGI, or BTG Loanco, made loans, referred to herein as the Banco BTG Pactual Partner Loans, to certain Partners, in such capacity, the Banco BTG Pactual Debtor Partners, the proceeds of which were used to fund all or a portion of their investment in us and BTG Pactual Holding. The Banco BTG Pactual Partner Loans mature 20 years after the date of the loan, unless otherwise accelerated as provided below. As of June 30, 2012, the aggregate original principal amount that remained outstanding under such loans (excluding any adjustments to such principal based on the prevailing CDI Rate as described below) was approximately R$370.8. Because of the steps we have taken to ensure that our partnership model will not change following our initial public offering, we expect to continue to make additional Banco BTG Pactual Partner Loans. See "Our Partnership—Continuation of Purchase/Sale Right."

The Banco BTG Pactual Partner Loans are denominated in *reais*. The outstanding principal of the Banco BTG Pactual Partner Loans will be adjusted from time to time based on the prevailing CDI Rate. The outstanding principal of the Banco BTG Pactual Partner Loans is adjusted by the prevailing CDI Rate on each date that a voluntary or mandatory prepayment is made (or is required to be made).

Banco BTG Pactual Debtor Partners must make mandatory prepayments on the outstanding amounts of the Banco BTG Pactual Partner Loans if any cash distributions or other cash payments are made to the Banco BTG Pactual Debtor Partners on account of their ownership of any shares in Banco BTG Pactual or shares in BTG Pactual Holding or if the Banco BTG Pactual Debtor Partner receives any proceeds from the sale or other disposition of such shares. Banco BTG Pactual Debtor Partners may also voluntarily prepay the Banco BTG Pactual Partner Loans without penalty or premium. In addition, in connection with the payment of annual cash bonuses to Partners, we have generally determined the amount of such bonus that Banco BTG Pactual Debtor Partners are permitted to retain and required Banco BTG Pactual Debtor Partners to use the remainder of such bonus, on an after-tax basis, to pay down outstanding amounts due under their respective Banco BTG Pactual Partner Loans or loans made by BTGI to certain Partners. The amount of such bonuses that may be retained by Banco BTG Pactual Debtor Partners is generally applied equally among all Banco BTG Pactual Debtor Partners of the same class (determined based upon the country in which they are based and the ownership interest they hold in Banco BTG Pactual and/or BTG Pactual Holding), although exceptions were made on case by case basis for Partners demonstrating specific liquidity needs. Although the use of bonuses to pay down outstanding loan balances is not required by the terms of the Banco BTG Pactual Partner Loans, a Partner who fails to comply with such policy understands that as a result of such failure, BTG Pactual Holding may exercise its rights to repurchase the shares owned by such Partner at book value. See "Our Partnership."

The Banco BTG Pactual Partner Loans contain events of default, such as payment defaults, bankruptcy and insolvency, and if the Banco BTG Pactual Debtor Partner grants a lien or other encumbrance (other than permitted liens or encumbrances) on its shares (or ceases to own any shares) of Banco BTG Pactual or BTG Pactual Holding. In the case of an event of default, BTG Loanco may, among other things, and subject to certain limitations, declare any amounts outstanding under the Banco BTG Pactual Partner Loan immediately due and payable.

Each Banco BTG Pactual Debtor Partner pledged all of the shares of Banco BTG Pactual and BTG Pactual Holding owned by such Banco BTG Pactual Debtor to BTG Loanco as security for payment of, and performance of obligations under, the Banco BTG Pactual Partner Loans.

Asset Management Services

In the ordinary course of our business, we provide a broad range of asset management services to BTGI, as well as to the Merchant Banking Partnership, an exempted limited partnership owned by our Partners and through which our Partners conduct certain merchant banking investments in Brazil.

On March 31, 2010, BTGI transferred BTG Alpha for R$92.4 million to the Merchant Banking Partnership. Following such sale, on April 1, 2010, the Merchant Banking Partnership started to pay a management fee equal to 2.0% of the total AUM of the Merchant Banking Partnership and a performance fee equal to 20.0% of the return on the investments to our asset management unit, which is serving as the investment advisor to such partnership.

In addition, after the sale of BTG Alpha by BTGI, virtually all of BTGI's merchant banking investments and investments in multi-asset funds are managed by BTG Pactual Asset Management S.A. DTVM, our wholly owned subsidiary. In connection with these services, we receive management fees, which are calculated as a percentage of asset value (that may vary by asset class) and committed capital, invested capital and total gross acquisition cost with respect to the funds and investment vehicles in which BTGI invests, and performance fees, when returns of these funds and vehicles exceed specified benchmarks or other performance targets. We receive these fees from BTGI and other investors investing in the same funds or vehicles in accordance with their respective interests in the funds. With respect to exclusive funds created for BTGI, we believe that the fees we charges are in line with the fees charged by us for exclusive funds created for other clients. For the year ended December 31, 2011 and the six months ended June 30, 2012, we recorded an aggregate revenue of R$46.0 million and R$152.5 million, respectively, in asset management fees from BTGI, and R$53.5 and R$22.2, respectively, in asset management fees from the Merchant Banking Partnership.

Investments by BTGI in Banco BTG Pactual

In the ordinary course of its business, BTGI maintains bank accounts with, and has invested in certain financial products offered by us and certain of our subsidiaries, including medium-term notes (acquired in the secondary market), demand deposits and time deposits. In addition, BTGI has entered into several financial derivative contracts with us. As of June 30, 2012, our net position with respect to such activities resulted in a liability of R$6.0 million.

Partner Non-Competition Agreements

Please see the section entitled "Our Partnership—Partner Non-Competition Agreements" for a description of these agreements.

Partner Brazil Shareholders Agreement

Please see the section entitled "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement" for a description of this agreement.

Consortium Shareholders Agreement

Please see the section entitled "Management—Consortium Shareholders Agreement" for a description of this agreement.

Purchase of the Notes by Senior Management

Certain members of our Senior Management, acting in their personal capacity, have placed orders in the bookbuilding process of this offering.

INDUSTRY OVERVIEW

Most of our operations are conducted in Brazil. Accordingly, we are significantly affected by the general economic environment in Brazil. In addition, we derive substantial revenues from non-Brazilian securities and, therefore, are also subject to global economic conditions, and in particular, fluctuations in worldwide financial markets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Macroeconomic Environment."

The table below sets forth selected key industry indicators for the periods indicated:

	Key Industry Indicators					
	For the year ended December 31,					CAGR
	2007	2008	2009	2010	2011	2007-2011
General economic activity	(Volume in US$ billions, unless otherwise indicated)					
Worldwide gross domestic product(1)	55,794.9	61,213.2	57,875.5	63,134.7	69,971.5	5.8%
Brazil gross domestic product(2)	1,366.0	1,650.2	1,624.9	2,142.9	2,474.5	16.0%
Advisory activities/financing						
Worldwide equity issued(3)	944.0	635.2	907.8	896.2	629.6	(9.6)%
Worldwide debt issued(3)	2,377.5	2,371.7	3,698.3	3,085.1	3,081.8	6.7%
Worldwide mergers and acquisitions(4)	4,141.5	2,868.3	2,.009.8	2,395.6	2,578.7	(11.2)%
Worldwide AUM (US$ trillion)(5)	74.5	64.2	72.4	79.3	–	–
World equity markets						
NYSE Euronext (U.S.) equity market capitalization(6)	15,650.8	9,208.9	11,837.8	13,394.1	11,795.6	(6.8)%
Brazilian market capitalization(6)	1,369.7	592.0	1,337.2	1,545.6	1,228.9	(2.7)%
IBOVESPA Index (in points)(7)	63,886.1	37,550.3	68,588.4	69,304.8	56,754.1	(2.9)%
Dow Jones Industrial Average (in points)(7)	13,264.8	8,776.4	10,428.1	11,577.5	12,217.6	(2.0)%
S&P 500 (in points)(7)	1,468.4	903.3	1,115.1	1,257.6	1,257.6	(3.8)%
BM&FBOVESPA average daily volume(8)	2.5	3.0	2.7	3.7	3.9	11.5%
Brazilian economic data						
CDI rate(9)	11.8%	12.3%	9.8%	9.7%	11.6%	(0.4)%
SELIC rate(10)	11.3%	13.8%	8.8%	10.8%	11.0%	(0.6)%
Inflation (IPCA)(11)	4.5%	5.9%	4.3%	5.9%	6.5%	9.9%

* Estimated

Sources:

(1) *World Bank*

(2) *IBGE*

(3) *Dealogic Analytics*

(4) *Thomson Financial*

(5) *International Financial Services London*

(6) *World Federation of Exchanges*

(7) *Bloomberg*

(8) *BM&FBOVESPA*

(9) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of each month and annually), as reported by OTC Clearing House (*Balcão Organizado de Ativos e Derivativos*), or CETIP.

(10) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC, as reported by the Central Bank.

(11) *IBGE*

Investment Banking

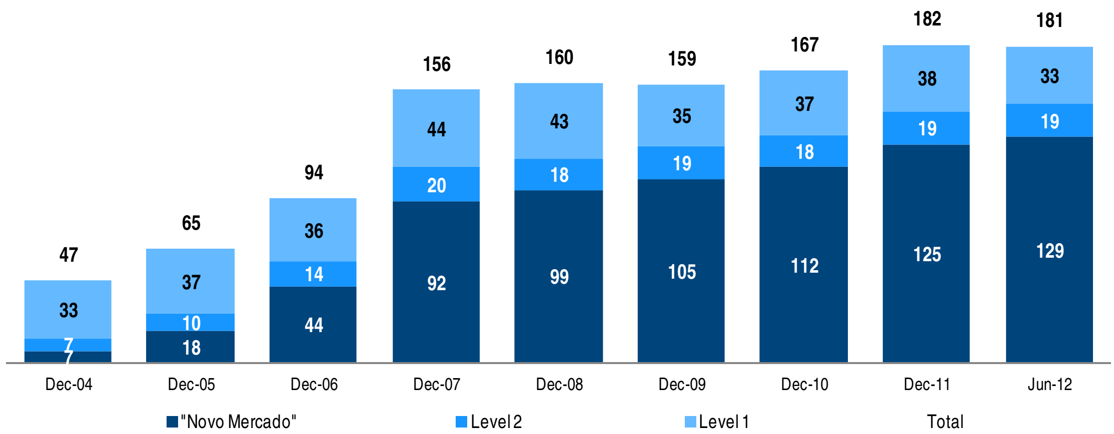
The investment banking industry in Brazil is intensely competitive and comprised of Brazilian and international banks, financial institutions and advisory boutiques. These entities provide a wide range of services, including underwriting and placement services in capital raising transactions through public and private equity markets, M&A and advisory services, as well as other financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals.

The capital markets segment for larger transactions is dominated by the top five financial institutions—mainly large banks. However, recently local wholesale banks have increased their position in this market. The M&A and advisory market is slightly less concentrated, primarily because this market also comprises smaller M&A investment boutiques and includes significant variation with respect to transaction size.

Equity Capital Markets

Over the last several years, equity capital markets in Brazil have shown heightened activity due to favorable market conditions. The attractiveness of BM&FBOVESPA is reflected by the number of companies that have become publicly traded on the "Novo Mercado" and at corporate governance "Level 1" and "Level 2" in recent years. As of June 30, 2012 there were 181 companies listed on BM&FBOVESPA at corporate governance "Novo Mercado" "Level 1" and "Level 2," an increase of 285.1% compared to 47 companies that were listed in December 2004.

The graph below shows the number and listing segment of companies publicly traded on BM&FBOVESPA as of the dates indicated:



Source: BM&FBOVESPA

The fees payable to financial institutions underwriting equity capital market transactions are typically a percentage of the transaction's value, generally paid only when the transaction settles. The fee is typically comprised of a base fee and an incentive fee, which are determined upon the completion of the transaction at the discretion of the company and/or shareholders.

The underwriters in equity offerings are typically investment banks, large commercial or retail banks with investment banking divisions and other advisory boutiques firms.

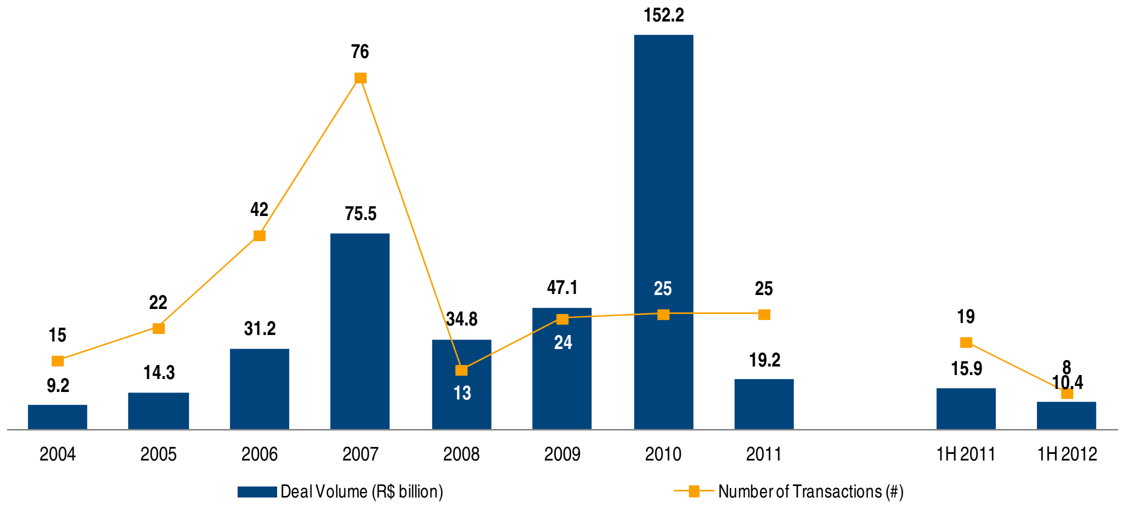
The table below shows the ranking of the most active banks in the Brazilian equity capital markets from 2004 until June 30, 2012:

Bank	**Ranking: volume**	**Ranking: number of offerings**	**Volume (in US$ millions)**	**Number of offerings**
Banco BTG Pactual S.A.	2	2	48,499	123
Banco de Investimentos Credit Suisse (Brasil) S.A.	3	3	45,355	108
Banco Itaú BBA S.A.	1	1	53,166	105
Banco Santander (Brasil) S.A.	6	4	29,251	42
Banco Merrill Lynch de Investimentos S.A.	4	6	23,728	42
Banco Bradesco BBI S.A.	5	5	25,619	36
Banco JP Morgan S.A.	9	9	12,149	30
Banco Morgan Stanley S.A.	7	7	21,915	25
Banco Citibank S.A.	8	8	21,532	21
Goldman Sachs do Brasil Banco Múltiplo S.A.	10	11	7,372	16

Source: ANBIMA

According to the CVM, there were 76 equity offerings in Brazil in 2007, representing the largest number of transactions in Brazilian history to occur during a one-year period, raising R$75.5 billion in capital. In 2008, despite worsening market conditions and the onset of the global economic and financial crisis, there were 13 equity offerings in Brazil, raising R$34.8 billion in capital. In 2009, there were 24 equity offerings, raising R$47.1 billion in capital, and, in 2010, the number of equity offerings remained relatively stable, with a total of 25 equity offerings, raising R$152.2 billion. This considerable increase in the capital raising in 2010 was mainly due to a Petrobras follow-on equity offering in the amount of R$120.2 billion. During the first half of 2011, markets were generally receptive to equity offerings; however, during the second half of 2011, the unstable and uncertain global economic environment, which was reflected to some degree by concerns with fiscal imbalances in Europe, ultimately impacted the equity capital markets in Brazil. From July 2011 until the end of 2011, equity offerings in Brazil generally ceased, with only two follow-on offerings occurring in October 2011. As a result, there was a total of 25 equity offerings in Brazil in 2011, raising R$19.2 billion in capital. During the six months ended June 30, 2012, there were a total of eight equity offerings in Brazil, raising R$10.4 billion, all of which took place in the second quarter of the year due to market volatility in the first quarter. According to the CVM, for the entire period between 2007 and June 30, 2012, there was a total of R$339.2 billion raised in equity offerings in Brazil, of which R$116.8 billion were IPOs and R$222.4 billion were follow-on offerings.

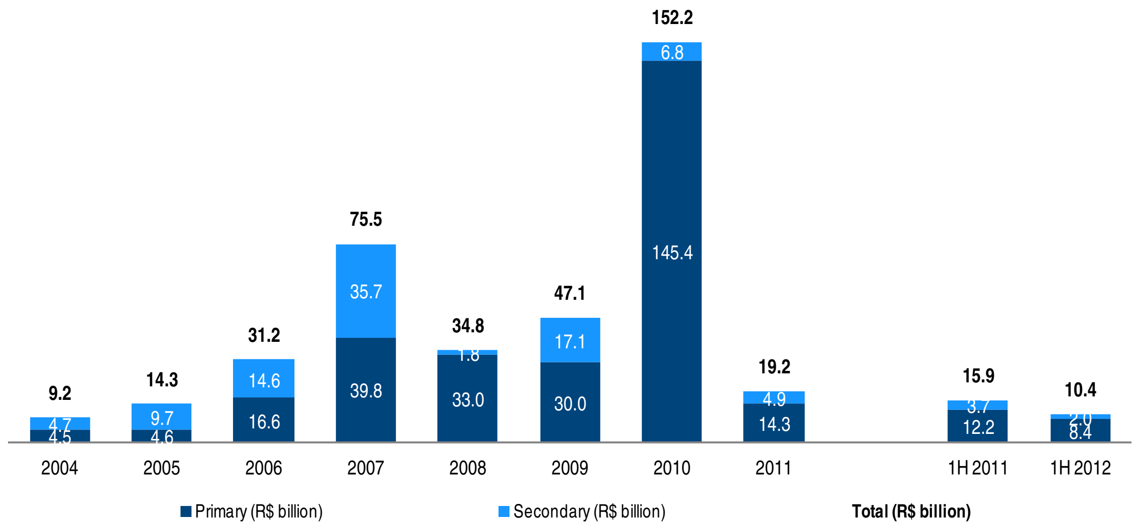
The graph below presents the number and volume (in R$ billions) of offerings for the periods indicated:



Source: CVM

Companies access capital markets for several reasons, including strengthening their balance sheets, funding their growth strategies and optimizing their capital structure. To accomplish any of these objectives, a company often participates in a primary equity offering. Additionally, a shareholder or group of shareholders may request or require a company to sell equity stakes in the company for a variety of reasons, in which case the company would carry out a secondary offering. For example, many private equity funds use secondary offerings as an exit strategy to divest their initial investments in a company. Secondary offerings may positively impact the asset and wealth management industry to the extent to which selling shareholders become potential new clients.

The graph below shows the breakdown between primary and secondary offerings for the periods indicated:



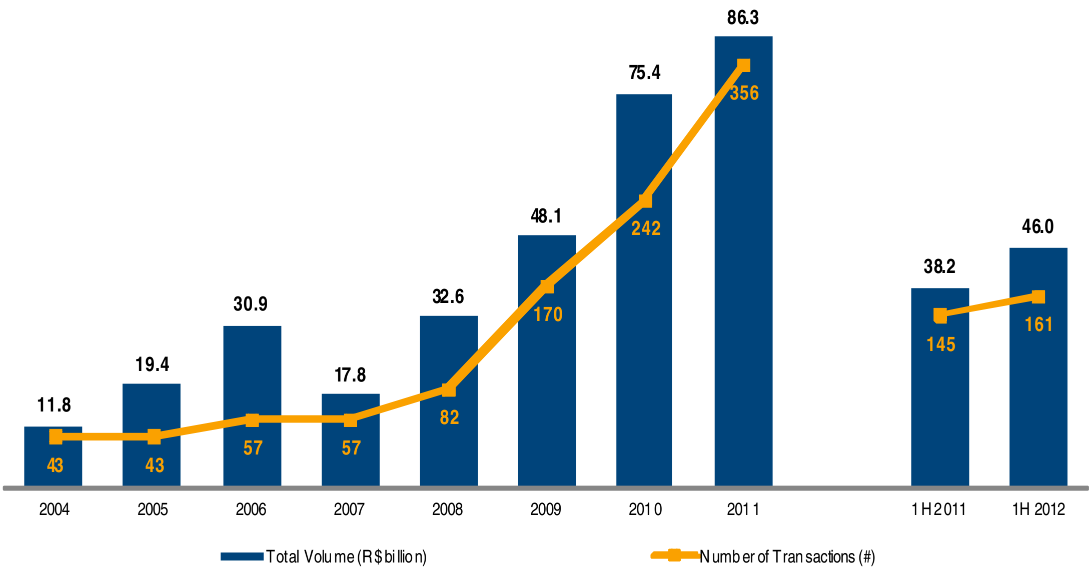
In terms of volume (in R$ billions), primary offerings represented 52.8% of the total offerings in 2007, 94.9% in 2008, 63.6% in 2009, 95.5% in 2010, 74.7% in 2011 and 81.1% in the six months ended June 30, 2012. This breakdown shows that companies accessed the equity capital markets mostly to raise new capital between 2007 and June 30, 2012.

Debt Capital Markets

Debt capital markets have also shown positive growth in the last several years. In order to reach an optimal capital structure and finance business activities, many companies also issue debt in public offerings.

In 2007, there was a total of 57 debt offerings in Brazil in an aggregate amount of R$17.8 billion according to ANBIMA, as compared to 356 debt offerings in an aggregate amount of R$86.3 billion in 2011, representing a CAGR of 48.5% in the aggregate *reais* amount of offerings for such period. During the six months ended June 30, 2012, there was a total of 161 debt offerings by Brazilian companies in Brazil in an aggregate amount of R$46.0 billion, and between 2007 and June 30, 2012, there was a total of 1,068 debt offerings by Brazilian companies in Brazil in an aggregate amount of R$306.1 billion.

The graph below shows the number and volume (in R$ billions) of debt offerings in Brazil consummated by Brazilian companies for the periods indicated:



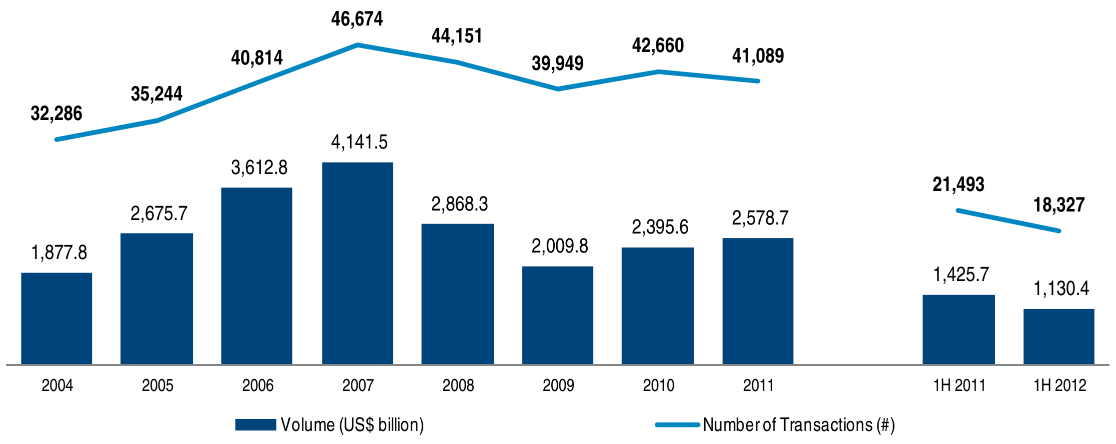
Source: ANBIMA

M&A and Advisory

The M&A and advisory segment consists of a broad range of services with respect to mergers and acquisitions, divestitures, restructurings, spin-offs and reorganizations. M&A and advisory services are typically rendered by investment banks, boutique advisory firms, financial advisory firms, law firms and other financial institutions.

M&A advisory services generally generate the majority of revenues within the advisory services segment. The volume of M&A transactions worldwide reached its peak in 2007, with a global volume of US$4,141.5 billion in total announced deals. More recently, this volume has decreased to US$2,868.3 billion in 2008, US$2,009.8 billion in 2009, US$2,395.6 billion in 2010, US$2,578.7 billion in 2011 and US$1,130.4 billion in the six months ended June 30, 2012. This decrease in volume coincided with the onset of the 2008 global economic and financial crisis. In that uncertain economic environment, many companies faced challenges with respect to revenues, profitability and cash balance, thus causing, in some cases, changes to companies' strategic planning and positioning for the medium-term. As a result, transactions were postponed or even terminated. In 2011, the effects of the European debt crisis continued to pose challenges for companies and their operations, which have impacted their investment and M&A decisions. Recent challenges in Europe due to the Greece debt crisis and Spanish banking crisis commencing in the beginning of 2012 negatively impacted M&A activity during the six months ended June 30, 2012.

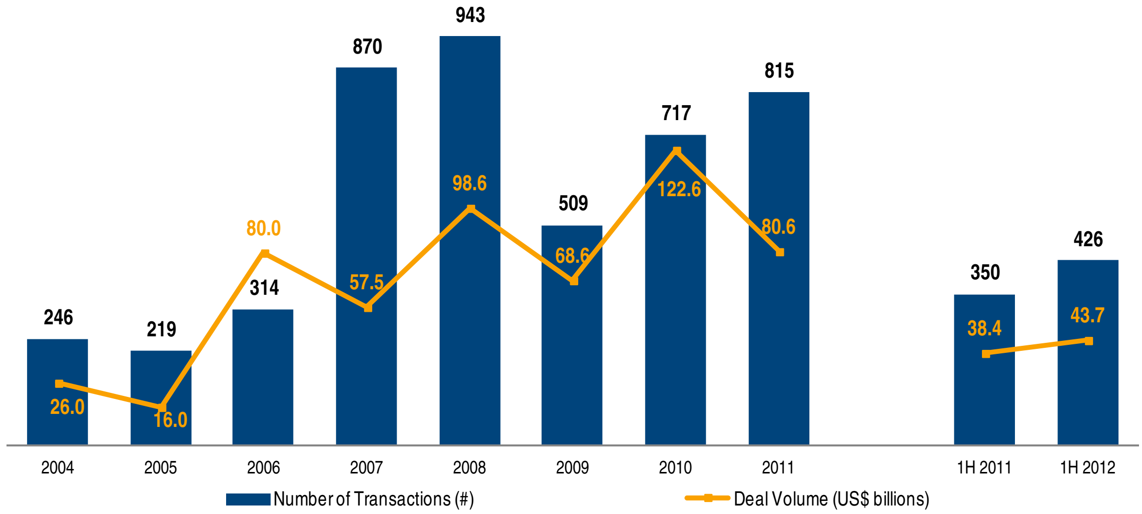
The graph below shows the number and total deal volume (in US$ billions) of announced global M&A transactions for the periods indicated:



Source: Thomson Financial

Despite the recent global M&A environment, the Brazilian M&A market have generally remained strong. In 2007, total deal volume (in US$ billions) of announced M&A transactions in Brazil was US$57.5 billion, which increased to US$80.6 billion of total announced deal volume in 2011, representing a CAGR of 8.8% for such period. In 2007, the Brazilian M&A market benefited from a high volume of equity capital market transactions, with strongly capitalized companies pursuing market opportunities, consolidation, expansion and market share growth. Because M&A transactions can take several months to close, M&A activity reached US$98.6 billion in 2008, mostly stemming from activity from prior years. During 2009 and 2010, the Brazilian economy underwent a strong consolidation phase, where more capitalized companies had the opportunity to pursue strategic acquisitions in order to leverage their businesses, gain market share and pursue complimentary business lines. In 2009, due to the effects of the global economic and financial crisis, M&A activity in Brazil totaled US$68.6 billion. As economic conditions improved in 2010, with higher growth rates, increased domestic consumption levels and a favorable international environment, the Brazilian M&A market reached its five-year peak, with a total transaction volume of US$122.6 billion. Buoyed by market confidence, M&A activity in Brazil remained strong during the first half of 2011, however, M&A activity in Brazil slowed during the second half of 2011 due to the impact of the European debt crisis. Although the European debt crisis deepened during the end of 2011 and the beginning of 2012, Brazilian M&A activity remained relatively strong during the six months ended June 30, 2012 due to the confidence in the Brazilian macroeconomic environment.

The graph below shows the number and total deal volume (in US$ billions) of announced M&A transactions in Brazil for the periods indicated:



Source: Thomson Financial

Sales and Trading

Sales and trading is a large and diversified industry segment consisting of a variety of customer-driven market-making and trading activities. The primary products of sales and trading include market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. Sales and trading includes both FICC (fixed income, currency and commodities) and equity sales and trading activities.

In Brazil, equities, futures and certain other derivatives are primarily traded on BM&FBOVESPA, while fixed income, foreign exchange and credit-linked derivatives, as well as fixed income securities and government bonds, are primarily traded on the OTC market. In the international markets, we trade most of the derivatives and debt instruments on the OTC market, while equities in the form of American Depositary Receipts, or ADRs, are traded on the NYSE.

The liquidity of the instruments that we trade is critical in attracting and retaining customers. The liquidity of an instrument (i.e., the ease and speed with which it can be acquired or sold with the least impact on price) depends on many factors, including the number of participants and intermediaries trading in an instrument and the availability of reliable reference prices. Liquid markets are characterized by efficiency in the execution of trades and large trading volumes. Illiquid markets are characterized by having few participants, low levels of transparency in price discovery and low trading volumes. The volume of contracts traded on an exchange is widely recognized as a liquidity indicator, as is the volume of public securities traded in the interbank market.

Derivatives Trading

Exchange-traded derivatives markets trade standardized derivatives contracts on an organized trading floor and/or electronic trading system and facilitate price discovery in relation to supply and demand. OTC derivatives markets trade customized derivatives contracts and, unlike exchange-traded markets, facilitate direct trading between parties in a wide range of contracts with specific characteristics in terms of size, underlying assets, maturity and settlement criteria. The main contracts traded on the OTC market are forwards, swaps and options. The main derivatives instruments are futures, options and swaps linked to agricultural commodities (including physical delivery commodities such as metals and energy products), interest rates, equity indices, price indices, foreign currencies and other assets or securities.

These instruments, which are used in nearly every sector of the world economy, enable risk management and the ability to execute different investment strategies. Interaction between participants (those seeking to mitigate and manage risks and those assuming risks with the expectation of making a profit) contribute to the creation of active, liquid and competitive markets.

According to the Futures Industry Association, in 2011, the largest exchange in terms of number of futures and derivatives contracts traded was the Korea Exchange, with approximately 3.93 billion contracts. According to this ranking, BM&FBOVESPA was the sixth largest derivatives exchange in the world with approximately 1.5 billion contracts.

The table below shows the top ten derivatives exchanges in the world in terms of the number of derivatives contracts traded according to data published by the Futures Industry Association for the periods indicated:

		Number of Contracts		
Rank	**Exchange**	**2010**	**2011**	**Change (%)**
1	Korea Exchange	3,748,861,401	3,927,956,666	4.8%
2	CME Group (includes CBOT and Nymex)	3,080,497,016	3,386,986,678	9.9%
3	Eurex (includes ISE)	2,642,092,726	2,821,502,018	6.8%
4	NYSE Euronext (includes all E.U. and U.S. Markets)	2,154,742,282	2,283,472,810	6.0%
5	National Stock Exchange of India	1,615,790,692	2,200,366,650	36.2%
6	BM&FBOVESPA	1,413,753,671	1,500,444,003	6.1%
7	NASDAQ OMX Group (includes U.S. and Nordic Markets)	1,099,437,223	1,295,641,151	17.8%
8	CBOE Group (includes CFE and C2)	1,123,505,008	1,216,922,087	8.3%
9	Multi Commodity Exchange of India (includes MCX SX)	1,081,813,643	1,196,322,051	10.6%
10	Russia Trading Systems Stock Exchange	623,992,363	1,082,559,225	73.5%

Source: Futures Industry Association

The exchange-traded derivatives market has recently experienced strategic changes driven by the following factors:

- market participants have become increasingly demanding and have replaced passive investment strategies with active ones, putting pressure on the financial services segment to use sophisticated risk management techniques. In particular, financial institutions and international hedge funds have committed increasing amounts of capital to futures and options trading;

- deregulation and market liberalization in the financial services segments in the United States, Europe and Asia have expanded customer access to products and markets, lowering regulatory barriers to the introduction of innovative products and encouraging consolidation in the sector; and

- technological advances have contributed to the decentralization of exchanges and the introduction of alternative trading systems. By using electronic trading platforms, market participants worldwide can trade certain products virtually 24 hours a day and, in some cases, without the use of intermediaries.

According to BM&FBOVESPA, the average daily traded volume of futures and options contracts has grown from 1,740.3 thousand contracts in 2007 to 2,700.6 thousand contracts in 2011, which represents a CAGR of 11.6% for such period, and for the six months ended June 30, 2012, the average daily traded volume of futures and options contracts reached 3,034.7 thousand contracts.

The tables below show the average daily traded volume of the securities listed below on BM&FBOVESPA for the periods indicated:

	For the year ended December 31,					CAGR
	2007	2008	2009	2010	2011	2007-2011
Interest rates in Brazilian *reais*	988.1	788.7	843.5	1,683.6	1,797.2	16.1%
Foreign exchange rates	473.0	534.9	447.1	54.6	495.5	1.2%
Stock indices	112.0	87.6	80.0	89.4	123.3	2.4%
Interest rates in U.S. dollars	87.9	94.3	78.3	89.7	145.2	13.4%
Commodities	10.1	14.9	10.2	12.9	13.2	7.1%
Web trading	57.8	40.5	52.6	75.6	114.4	18.6%
OTC contracts	11.5	12.4	9.3	12.9	11.7	0.5%
Total	**1,740.3**	**1,573.3**	**1,521.0**	**2,504.7**	**2,700.6**	**11.6%**

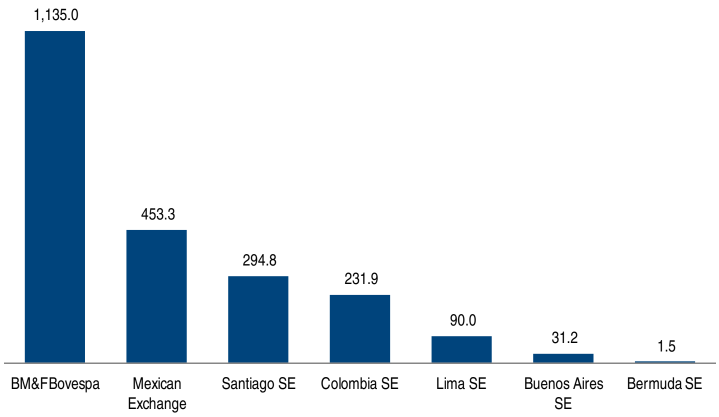
	For the six months ended June 30,		
	2011	2012	Variation (%)
	(R$ thousands, except percentages)		
Interest rates in Brazilian *reais*	1,921.7	1,995.4	3.8%
Foreign exchange rates	483.2	539.4	11.6%
Stock indices	94.6	170.2	79.9%
Interest rates in U.S. dollars	157.4	154.5	(1.9)%
Commodities	12.8	11.4	(10.6)%
Web trading	84.0	155.4	84.9%
OTC contracts	13.4	8.2	(38.6)%
Total	**2,767.2**	**3,034.7**	**9.7%**

Source: BM&FBOVESPA

Stock Exchanges

Stock exchanges are organized and centralized markets, which facilitate the trading and price formation of securities issued by companies, funds and other vehicles for the purpose of raising capital. For most stock exchanges, depositary, clearing and settlement services are rendered by independent organizations, although some stock exchanges, including BM&FBOVESPA, have adopted a vertical structure, integrating all of these activities into a single medium. BM&FBOVESPA is by far the largest stock exchange in Latin America in terms of total domestic market capitalization.

The graph below shows the market capitalization (in US$ billions) of the largest stock exchanges in Latin America as of June 30, 2012:



Source: World Federation of Exchanges

The table below set forth information on the value traded in the securities markets for the periods indicated:

Total Financial Trading Value	For the year ended December 31,					CAGR
	2007	2008	2009	2010	2011	2007-2011
	(R$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	1,198.4	1,374.5	1,300.2	1,602.3	1,616.2	7.8%
Cash market	1,116.1	1,285.4	1,216.2	1,489.8	1,518.0	8.0%
Forward market	38.2	44.3	23.7	36.4	29.4	(6.4)%
Options market	44.0	44.9	60.3	76.1	68.8	11.8%
Fixed income and others	0.9	1.3	0.4	0.4	0.3	(26.8)%
BM&FBOVESPA total	**1,199.3**	**1,375.8**	**1,300.6**	**1,602.7**	**1,616.4**	**7.7%**

Total Financial Trading Value	For the six months ended June 30,		
	2011	2012	Variation (%)
	(R$ thousands, except percentages)		
BM&FBOVESPA segment stocks and equity derivatives	795.6	916.9	15.3%
Cash market	746.9	863.5	15.6%
Forward market	17.4	13.0	(25.0)%
Options market	31.3	40.4	28.9%
Fixed income and others	0.1	0.2	118.6%
BM&FBOVESPA total	**795.7**	**917.2**	**15.3%**

Source: BM&FBOVESPA

The average daily traded value of the securities listed below increased over the past five years and for the six months ended June 30, 2012 as shown in the following charts:

Average Daily Traded Value	For the year ended December 31,					CAGR
	2007	2008	2009	2010	2011	2007-2011
	(R$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	**4,891.3**	**5,520.3**	**5,285.2**	**6,486.9**	**6,490.6**	**7.3%**
Cash market	4,555.5	5,162.3	4,943.7	6,031.6	6,096.3	7.6%
Forward market	156.1	177.8	96.5	147.4	118.0	(6.8)%
Options market	179.7	180.2	245.0	307.9	276.3	11.4%
Fixed income and others	3.8	5.2	1.6	1.8	1.1	(27.1)%
BM&FBOVESPA total	**4,895.1**	**5,525.5**	**5,286.8**	**6,488.6**	**6,491.6**	**7.3%**

Average Daily Traded Value	For the six months ended June 30,		
	2011	2012	Variation (%)
	(R$ thousands, except percentages)		
BM&FBOVESPA segment stocks and equity derivatives	6,468.2	7,394.7	14.3%
Cash market	6,072.2	6,963.9	14.7%
Forward market	141.3	105.1	(25.6)%
Options market	254.7	325.7	27.9%
Fixed income and others	0.9	1.9	116.8%
BM&FBOVESPA total	**6,469.1**	**7,396.7**	**14.3%**

Source: BM&FBOVESPA

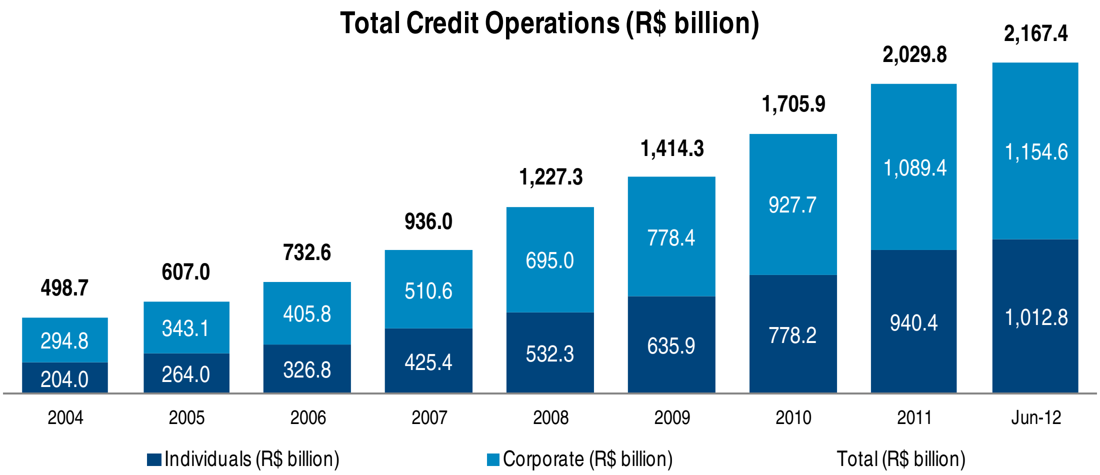
Brazilian Lending Operations

The Brazilian banking industry underwent important structural changes in the last two decades, from an environment of high inflation during the 1980s and the beginning of the 1990s, to an environment marked by low rates of inflation and greater macroeconomic and monetary stability beginning in 1994, when the *Real Plan* was introduced. Because of the macroeconomic stability resulting from the implementation of the *Real Plan*, there has been a steady growth in demand for credit in Brazil. In addition, Brazilian banks have recently diversified the types of financial products offered to their clients.

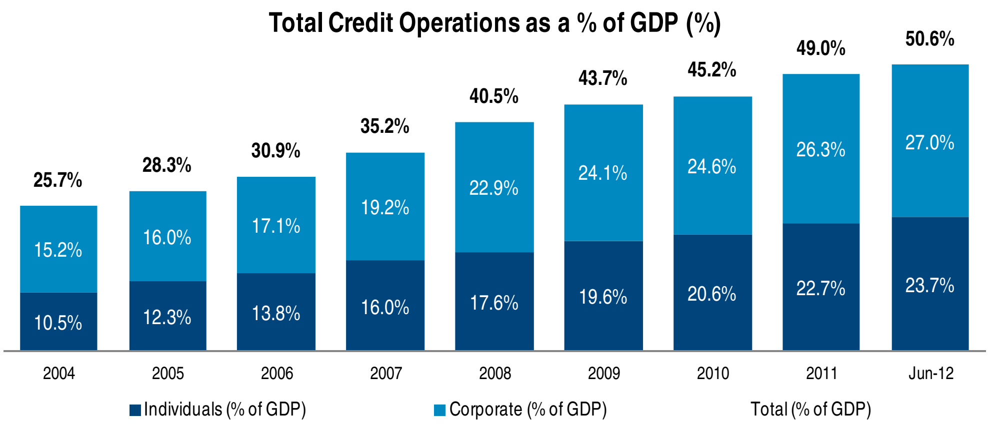
Access to banking services facilitates participation in the economy, fosters the formalization of transactions, spreads access to credit for consumption, investments, payment services, collection services and insurance and reduces loan-sharking. In order to broaden access to banking services, the Brazilian government has implemented measures to promote credit and reduce bank spreads, including the creation of clearer rules for payroll loans, new credit instruments such as bank credit bills (*cédulas de crédito bancário*) and incentives to offer credit to small companies, among others.

In June 2012, according to the Central Bank, total credit operations reached R$2,167.4 billion, of which R$1,154.6 billion were corporate loans and R$1,012.8 billion were loans to individuals. Between 2004 and 2011, corporate loans and loans to individuals had a CAGR of 20.5% and 24.4%, respectively. In June 2012, according to Central Bank preliminary data, total credit operations comprised approximately 50.6% of Brazil's GDP, with loans to individuals representing 23.7% and corporate loans representing 27.0%. FEBRABAN expects that credit operations will increase 16.2% in 2012, with corporate loans increasing 15.0% and individual loans increasing 15.0%.

The graphs below reflect the evolution of total credit operations in Brazil and total credit operations as a percentage of Brazil's GDP for the periods indicated:



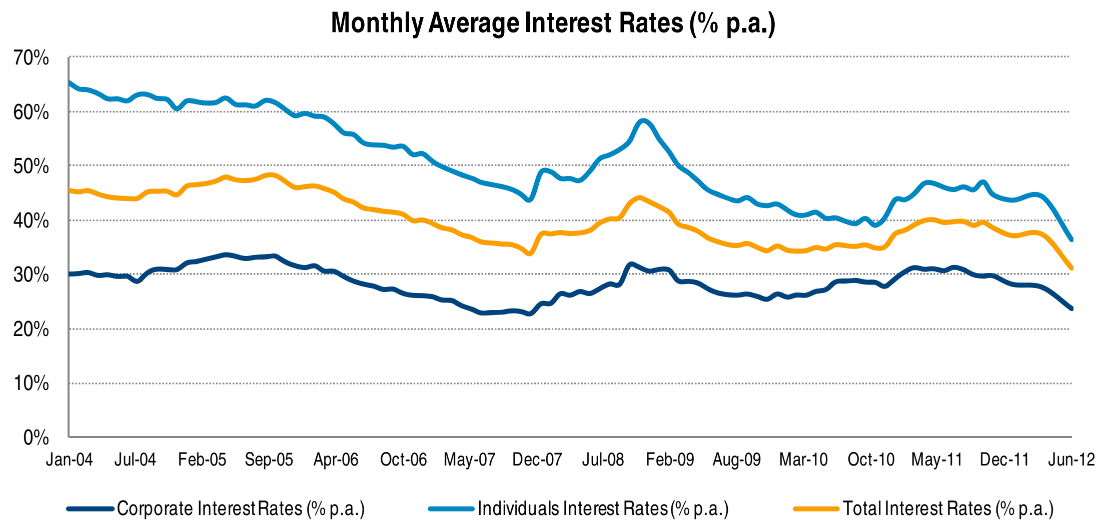
Source: Central Bank



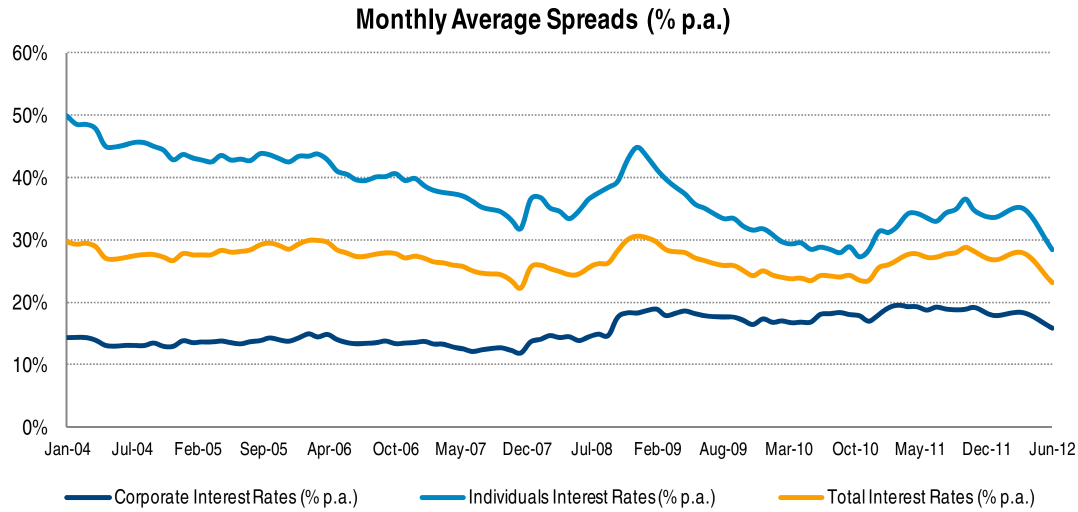
Source: Central Bank

According to Central Bank data, corporate interest rates have remained relatively stable since 2004, while individual interest rates have declined over the course of the same period despite the recent upturn since December 2010. As of June 2012, corporate interest rates were approximately 23.8%, and individual interest rates were approximately 36.5%, resulting in an average rate of 31.1% for total credit outstanding. Since the 2008 global financial and economic crisis, there has been an increase in corporate loan spreads, while individual loan spreads have decreased significantly since the end of 2010 due to macroeconomic measures implemented in 2009 to strengthen economic growth. In 2011, the prospect of high inflation raised concerns about consumption and credit availability, which led the Brazilian government to impose certain barriers, limiting the credit extended to individuals (including, higher compulsory requirements for banks for payroll loans and vehicle financing of longer terms, among others), which, in turn, impacted their spreads. However, recent measures taken by state-owned banks in order to reduce spreads lowered interest rates and spreads as shown in the graphs below. The largest impact was on individual loans, which interest rates decreased 7.25% from December 2011 to June 2012, resulting in spreads similar to December 2010 levels. During the same period, interest rates for corporate loans decreased 4.43%.

The graphs below illustrate the monthly average interest rates and the monthly average spreads for the periods indicated:



Source: Central Bank

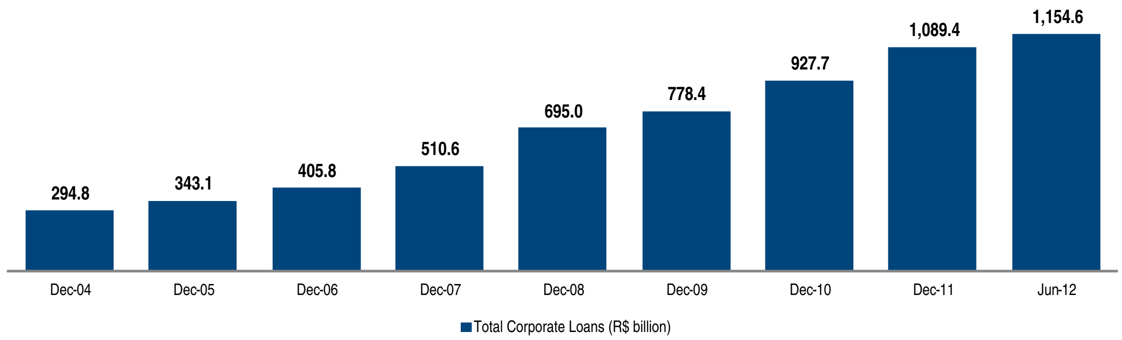


Source: Central Bank

Corporate Lending

Our corporate lending operations are carried out mainly in Brazil. The legacy of high inflation and the lack of availability of long-term credit for Brazilian companies have resulted in relatively low levels of corporate leverage. However, according to the Central Bank, the volume of corporate credit (including regulated funds) has increased significantly in recent years, from R$510.6 billion in December 2007 to R$1,089.4 billion in December 2011, representing a CAGR of 20.9% between such dates. In June 2012, the volume of corporate credit in Brazil reached R$1,154.6 billion.

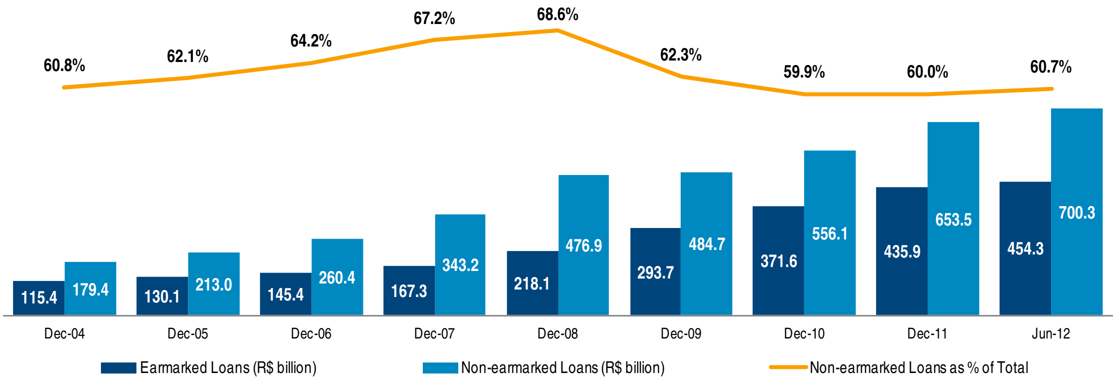
The graph below reflects the evolution of corporate loans in Brazil for the periods indicated:



Source: Central Bank

The Brazilian government and BNDES maintain a significant role with respect to the Brazilian financial system. As of June 2012, the Brazilian financial system had a total of R$779.0 billion of earmarked lending, comprising 35.9% of total lending. Earmarked lending refers to BNDES lending and lending required by the Brazilian government to designated sectors of the economy, including agriculture and housing. Corporate loans comprise the majority of earmarked loans, representing 58.3% of total earmarked lending as of June 2012. However, due to the strong growth of credit in Brazil led by profitable, scalable and healthy financial institutions, the percentage of earmarked lending relative to total lending has stabilized in recent years. As of December 2007, 67.2% of all corporate loans were granted through earmarked lending while only 60.7% were granted through earmarked lending as of June 30, 2012.

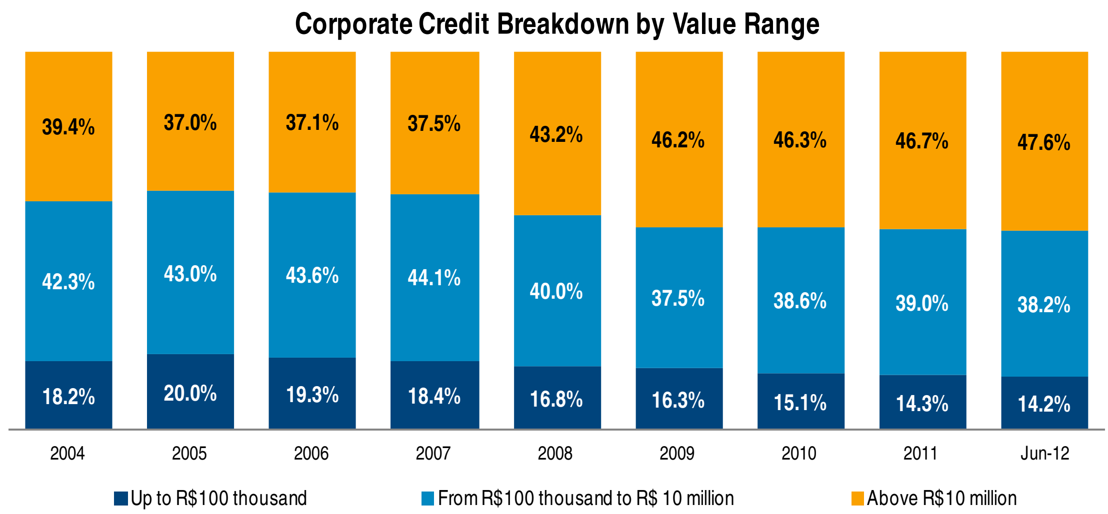
The graph below reflects the evolution of corporate loans in Brazil divided between earmarked and non-earmarked sources for the periods indicated:



Source: Central Bank

Loans above R$10.0 million represent the greatest portion of corporate credit in Brazil, accounting for 47.6% of Brazil's total corporate credit as of June 30, 2012. In comparison, loans of up to R$100,000 and between R$100,000 and R$10.0 million represent approximately 14.2% and 38.2%, respectively, of total corporate credit in Brazil.

The graph below shows the breakdown of Brazilian corporate credit by loan amount for the periods indicated:

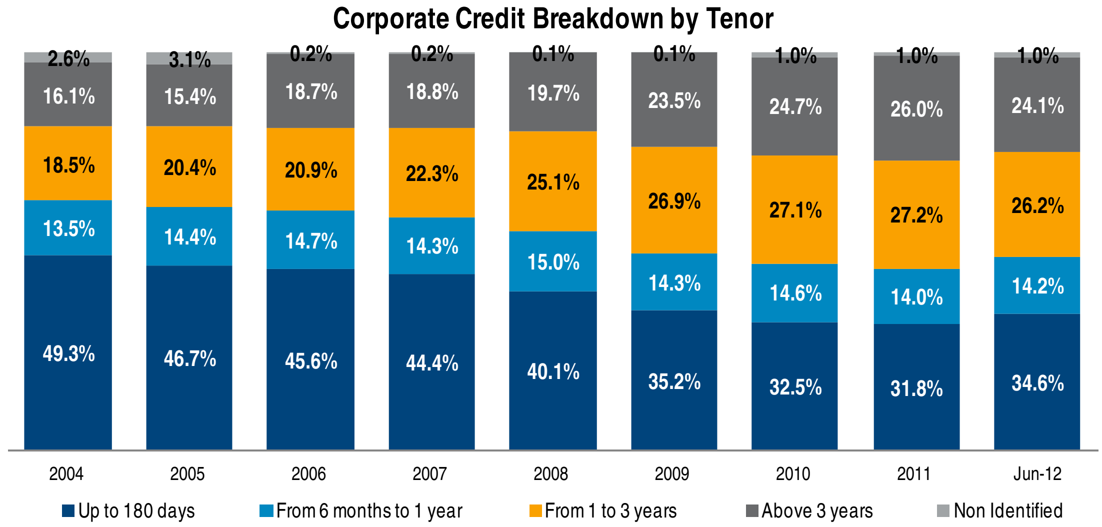


Source: Central Bank

There is a recent trend towards extending the average maturity of corporate loans in Brazil. Notwithstanding this recent trend, as of June 30, 2012, short-term loans (maturing within 180 days from the date of the disbursement of the credit) still accounted for 34.6% of the total loans to corporations in Brazil, while long-term loans (maturing in more than one year from the date of the disbursement of the credit) accounted for 50.3% of total corporate credit in Brazil.

The graph set forth below shows the breakdown of the maturity of corporate loans in Brazil as of the periods indicated:

Corporate Credit Breakdown by Term



Source: Central Bank

There are many credit products available to corporations in Brazil. We believe the key credit products available to corporations are revolving credit lines, working capital loans, "compror" and "vendor" loans and note discounting, each of which is described below.

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

Working capital loan. Working capital loans consist of advances of funds to meet borrowers' working capital needs. In general, the repayment period is 180 days from the date of disbursement of the working capital loan.

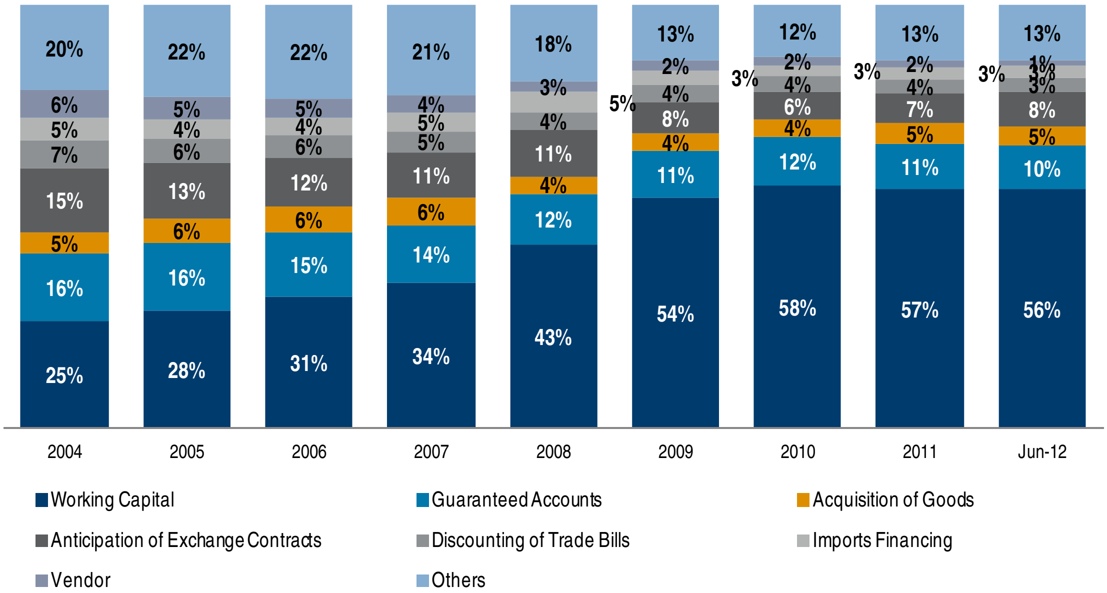
Compror loan. The compror loan, or a payables financing loan, provides a borrower financing for the acquisition of a product or service. This loan allows a buyer to extend the repayment period of a purchase without involving the seller because the buyer is the obligor of the loan.

Vendor loan. A vendor loan, or a receivables financing loan, allows a company to sell its products on credit while receiving payment in cash. The main advantage of this type of financing is that the sale is not financed directly by the company selling the product and as a result, the calculation base for the collection of tax and sales commissions is smaller.

Note discounting. In a note discounting transaction, a financial institution will provide advances on amounts relating to certain instruments, including trade acceptance bills, promissory notes, credit card sale receipts or postdated checks aimed at anticipating the cash flow of the borrower. The borrower guarantees the non-payment of the notes.

The graph set forth below reflects the breakdown of credit products to corporations in Brazil for the periods indicated:

Corporate Credit Breakdown by Category



Source: Central Bank

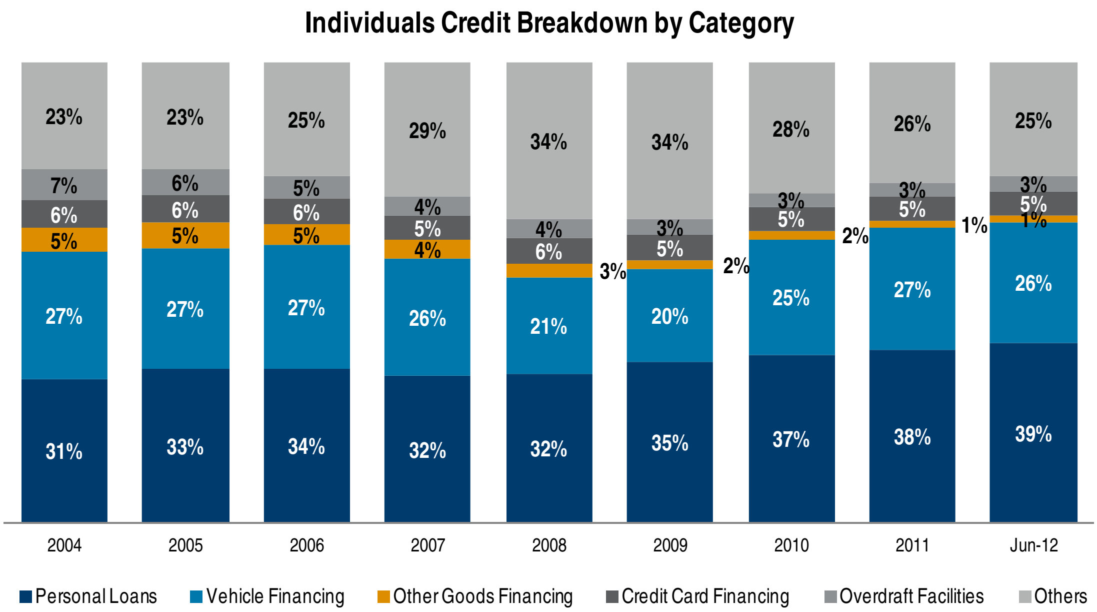
Lending to Individuals - Commercial Banking

In Brazil, financing for individuals has significantly grown in recent years, mainly due to greater economic stability, higher economic growth rates and improvements in income distribution and poverty levels.

According to the Central Bank, the balance of total consumer credit increased, on average, by a CAGR of 24.4% between December 31, 2004 and December 31, 2011, reaching R$940.2 billion as of December 31, 2011, or 46.3% of all credit in Brazil. In June 2012, total individual loans reached R$1,012.8 billion, or 46.9% of all credit in Brazil.

The Brazilian government and BNDES have played a significant role with respect to financing to individuals in Brazil, mainly through extending credit to small agribusiness producers and providing financing for housing. As of June 2012, credit extended to individuals totaled R$1,012.8 billion, of which R$324.7 billion was composed of earmarked lending, or 32.1% of the total. However, as the Brazilian banking system continues to develop and financial institutions seek to diversify their portfolio of products, the share of earmarked lending is expected to decrease, which is consistent with recent trends.

The key credit products used by individuals are personal loans, vehicle financing, payroll deductible loans, credit card financing and overdraft facilities. The graph set forth below reflects the breakdown of credit extended to individuals in Brazil for the periods indicated:



Source: Central Bank

Personal Loans

Personal loans bear relatively high interest rates, which are intended to off-set relatively high rates of default. This type of loan is frequently used by consumers who have limited credit availability. Borrowers are not required to provide collateral and there are no specifications on the way in which the proceeds must be used. Major retail banks offer personal loans to their customer base through their network of branches, while the small- and medium-size banks, focused on a certain niche, operate through small offices in Brazil's major cities.

Vehicle Financing

The vehicle financing market is primarily dominated by large retail banks, which have gradually replaced the lending role formerly held by institutions affiliated with automakers. Interest rates for vehicle financing are extremely competitive. The smaller institutions that serve this market focus, in most cases, on the used vehicle segment. Default rates are relatively low and the loans are secured by the financed vehicle, which can be repossessed and sold if the borrower defaults.

Payroll Deductible Loans

Payroll deduction loans increased with the demand for alternative sources of credit. Historically, traditional credit facilities have been expensive for consumers for different reasons, including competition within the banking industry, the legal and institutional structure of the industry and the nature of underlying credit risks.

Payroll deduction loans have been the fastest growing form of consumer financing over the last few years. Payroll deduction loans are made available to a segment of the Brazilian population without access to a regular bank account or traditional banking distribution channels.

Credit Card Financing

Credit card lending is dominated by large retail banks that operate under their own banners in association with international banners like MasterCard and Visa. Interest rates on credit card financing are generally high, mainly due to high default rates for this type of credit.

Overdraft Facilities

Overdraft protection, or the guaranteed personal check, is usually offered by institutions that accept demand deposits. In general, these are the major retail banks, including large foreign conglomerates. We believe that consumers use this line of credit as a last resort, because interest rates are relatively higher than other forms of credit afforded to individuals.

Installment payment credit offered by retail store chains involves the financing of consumer goods, including durable goods such as building materials and home appliances, as well as non-durable goods such as apparel and groceries. The installment credit market is the most fragmented of all segments of consumer credit in Brazil. Major retail chains have traditionally financed their customers' purchases, but recently some agreements have been entered into between retail chains and banks that are interested in taking over those credit operations.

Insurance

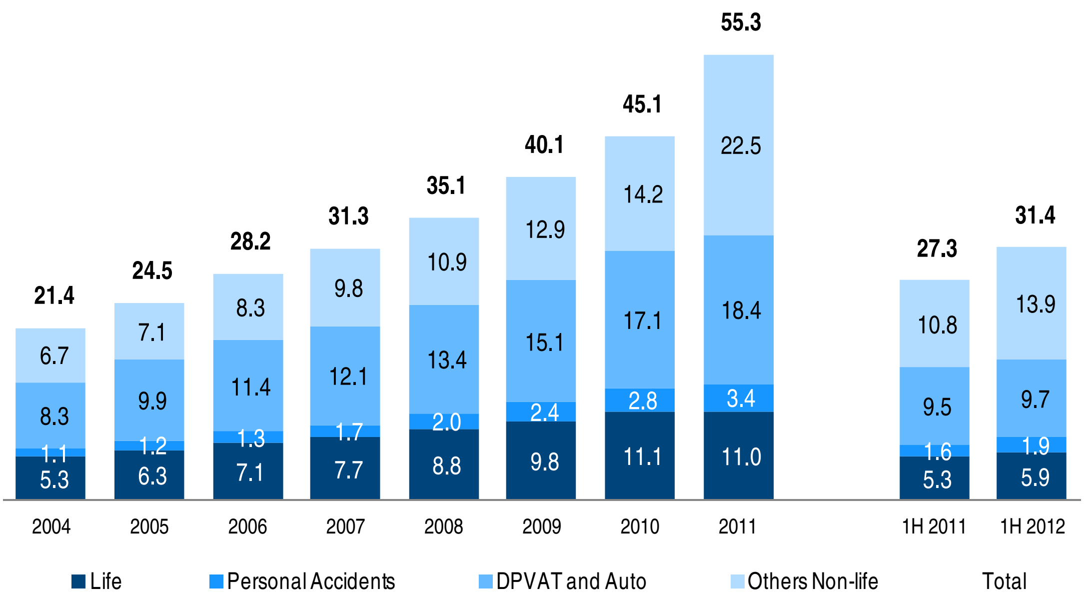
Through Banco PanAmericano, we also offer insurance products. Over the past several years, Latin America has experienced strong insurance premium growth, mostly due to better economic conditions, lower inflation, improvements in insurance supervision, greater product innovation and the use of multiple distribution channels, in particular the successful leveraging of bancassurance, referring to the selling of insurance through a bank's established distribution channels.

Despite strong growth, Latin America remains under-penetrated as measured by premiums as a percentage of GDP and premiums per capita, with insurance penetration rates for Latin America and the Caribbean at 2.6%, below the world average of 6.9%, according to Swiss Re.

The Brazilian insurance market has experienced substantial growth over recent years. During the five-year period ended December 31, 2011, net earned premiums in the Brazilian insurance industry have increased at an annual rate of 14.5% (excluding premiums from health and VGBL plans, a product popular in the Brazilian private pension product), according to the data from the Brazilian National Superintendence for Supplementary Social Security (*Superintendência Nacional de Previdência Complementar*), or SUSEP. During 2011, net earned premiums grew by 22.5% (excluding health and VGBL premiums) compared to 2010, according to SUSEP.

The graphs below show the evolution of net earned premiums in Brazil and the breakdown of net earned premiums, excluding health and VGBL premiums, for the period indicated:

Net Earned Insurance Premiums in Brazil[(1)(2)]

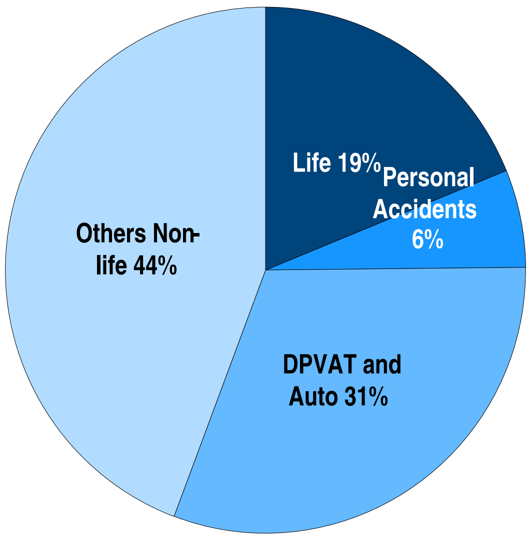


Source: SUSEP

(1) Excludes VGBL and healthcare.

(2) Information presented in R$ millions.

Breakdown of Net Earned Premiums (June 2012) [(1)]



Source: SUSEP

(1) Excludes VGBL and healthcare.

Although the main driver of growth in the Brazilian insurance industry is generally believed to be the stronger pace of domestic consumption, additional contributing factors include:

- increased macro stability;
- relevant reforms such as the introduction of the Real plan;
- increased purchasing power and volume of credit offered;
- increased employment in the formal sector;
- increased numbers of vehicles; and
- increased penetration of insurance products.

The Brazilian insurance sector consists of life and non-life products. The life segment includes coverage for property and individuals, and the non-life segment mainly includes auto, homeowner and property and casualty insurance, among others.

The Brazilian insurance market can be broadly divided into two groups: (i) independent insurers, such as SulAmérica and Grupo Icatu, and (ii) insurance companies that are associated with Brazil's largest banking institutions, such as Bradesco, Itaú Unibanco and Banco do Brasil. Bancassurance distribution channels are well developed in Brazil, especially within the pension products market.

We believe that consumer demand for personal insurance lines will remain strong in the near future due to changes in spending habits, increased economic activity and the continued expansion of credit supply.

Furthermore, we expect that a strong labor market will lead to a rise real wages will help boost the country to higher purchasing power levels resulting in sustained growth in the insurance industry.

Asset Management

Asset management generally involves the professional management of investments (e.g., equity, debt, derivatives and other securities) by third party managers on behalf of investors to meet their specific investment goals. Investors may be corporations, institutions, governments and individuals, who invest in various funds. Wealth management, as discussed below, is a more specialized and discretionary type of asset management provided to private investors, who are usually high net worth individuals.

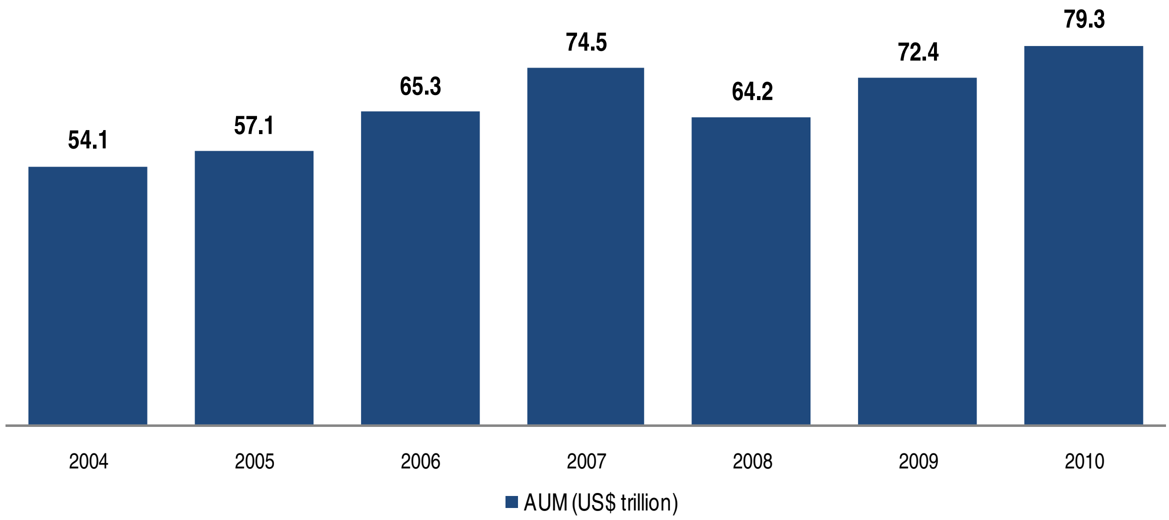
Traditional asset management generally involves managing and trading portfolios of equity, fixed income and/or derivative securities. Asset management typically generates management fees as a percentage of the AUM and performance fees depending on the type of fund being managed. The investment objectives of a fund can vary between total return funds, capital appreciation, current income, and replicating the performance of a specific index, among other types.

Alternative asset management utilizes a wide range of investment strategies to achieve returns within certain predefined risk parameters and investment guidelines. In general, these investments tend to have a lower correlation with the general market than do traditional asset management strategies. Examples of these funds include private equity funds, real estate funds, venture capital funds, hedge funds and fund of funds, among other types.

The asset management industry has experienced significant growth both globally and in Brazil since 2000. However, following five consecutive years of growth during which AUM more than doubled, there was a worldwide decline of AUM in 2008, primarily as a result of weakened equity markets, poor investment performances, reduced inflows of new funds and increased investor redemptions. The strengthening of the U.S. dollar during 2008 also exacerbated this decline. Despite the losses incurred on some investments, the global fund management industry was much less affected by the global financial and economic crisis than the banking sector. Following recovery in the equity markets, global AUM increased in 2009, partially as a result of the depreciation of the U.S. dollar against a number of currencies in 2009.

As equity markets continued to recover and with an inflow of new funds, global AUM continued to grow in 2010. According to the most recent report issued by the International Financial Services, London, there were approximately US$79.3 trillion of global AUM in 2010, which represents an increase of 9.5%, 23.5% and 6.0%, compared to 2009, 2008 and 2007, respectively. Of this total, pension assets accounted for approximately US$29.9 trillion, mutual funds accounted for US$24.7 trillion and insurance funds accounted for US$24.6 trillion. Together with alternative assets (e.g., sovereign wealth funds, hedge funds, private equity funds and exchange-traded funds) and funds of wealthy individuals, the assets of the global fund management industry totaled approximately US$117.0 trillion at the end of 2010, which represented an increase of 10% from 2009. The United States continued to be the largest source of AUM in 2010, accounting for nearly a half of traditional AUM, or $36.0 trillion, while the United Kingdom was the second largest source of AUM and the largest in Europe with around 8% of the global total of AUM. Japan and France followed as the third and fourth largest source of AUM, with 7.5% and 6.0%, respectively of the global AUM.

The graph below shows the evolution of global AUM for the periods indicated:



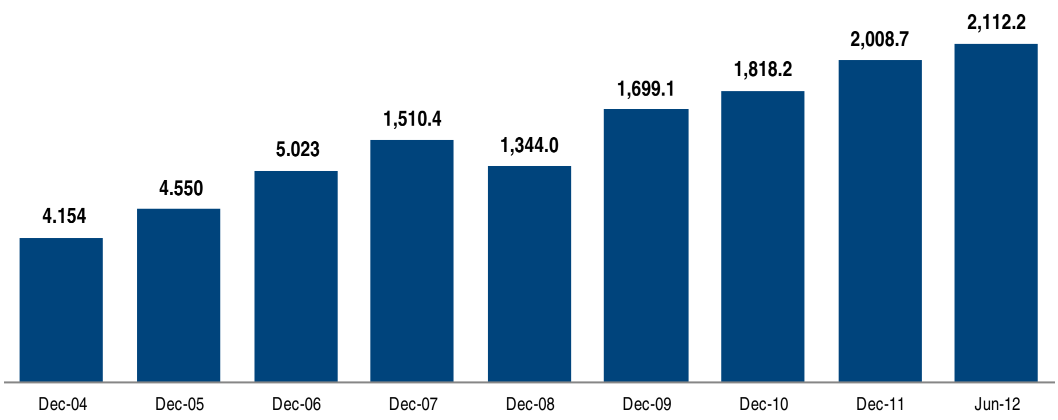
Source: International Financial Services London

The relatively stable economic conditions in Brazil coupled with an aging population have encouraged investors to increase savings. Since 2002, the investment fund industry in Brazil has undergone material changes, in part as a result of regulations promulgated by the CVM. These regulations encouraged market participants to adopt better corporate governance practices and increase transparency in the management of investment funds. Other growth drivers in the asset management industry have been the expansion of the insurance and private pension markets, which benefited from the growth of private pension plans, improved credit ratings of Brazilian issuers and easier access to financial products offered over the internet.

According to ANBIMA, as of June 30, 2012, the asset management industry in Brazil included approximately 7,078 investment funds and over R$2,112.2 billion in AUM.

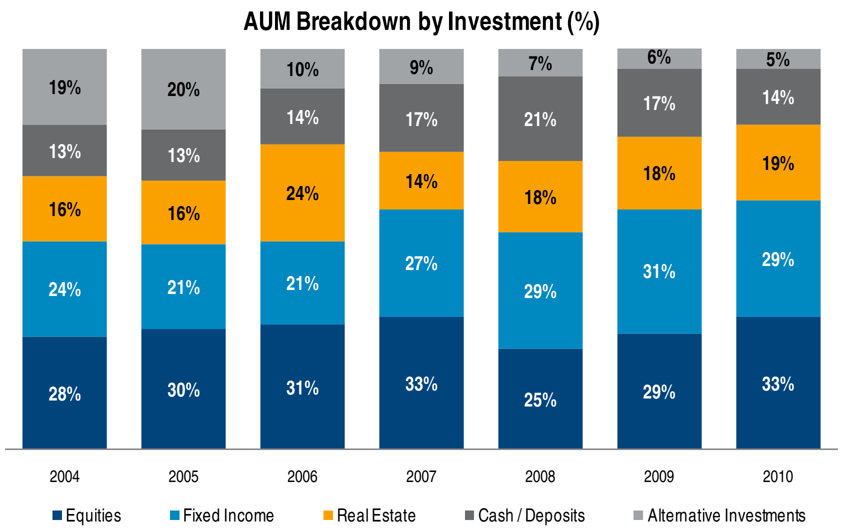
The graph below reflects AUM in Brazilian investment funds as of the periods indicated:

AUM in Brazilian Investment Funds (R$ billions)



Source: Central Bank

The graph below reflects AUM breakdown by investment type in Brazil as of December 31 of the years indicated:



Source: World Wealth Report

Asset Management Products

In addition to the favorable political and economic conditions in Brazil, the asset management industry has benefited from the increasing availability of new products, such as diversified funds (*fundos multi-mercado*), a lessening risk aversion among domestic and foreign investors and the accelerated growth of private pension funds.

The principal funds in the Brazilian asset management industry include, fixed income funds, money market funds, equity funds, multi-asset funds and structured funds.

Fixed Income Funds. Fixed income funds invest solely in fixed income investments, such as bonds or certificates of deposit. These funds limit the amount of risk an investor takes on, although it could mean a lesser return that would be possible in a riskier fund.

Money Market. The money market is a component of the financial markets for assets based on short-term borrowing and lending with original maturities of one year or shorter periods. In Brazil, the money market is mainly composed of CDI transactions, which are interbank repurchase agreements with one-day maturity and based on highly liquid Brazilian government bonds.

Equity Funds. Equity funds are mutual funds that invests mainly in stocks, that are managed either actively or passively (index fund). Actively managed funds seek to obtain returns by focusing on undervalued stocks and selling them when their prices are higher, including in recession scenarios. Passively managed funds seek to obtain gains by making investments that follow general market positions, particularly equity indexes (e.g., S&P 500).

Multi-asset Funds. Multi-asset funds invest in different types of assets, including stocks, bonds, cash and real property. These types of funds increase the diversification of an overall portfolio by distributing investments throughout several classes. While this investment strategy reduces risk (volatility) compared to holding one class of assets, it also may limit potential returns.

Structured Funds. Structured funds combine both equity and fixed-income products to provide investors with a degree of both capital protection and capital appreciation. These funds use fixed-income securities to give the fund capital protection through principal repayment in addition to interest payments. These funds use options, futures and other derivatives, which are often based on market indexes, to provide exposure to capital appreciation.

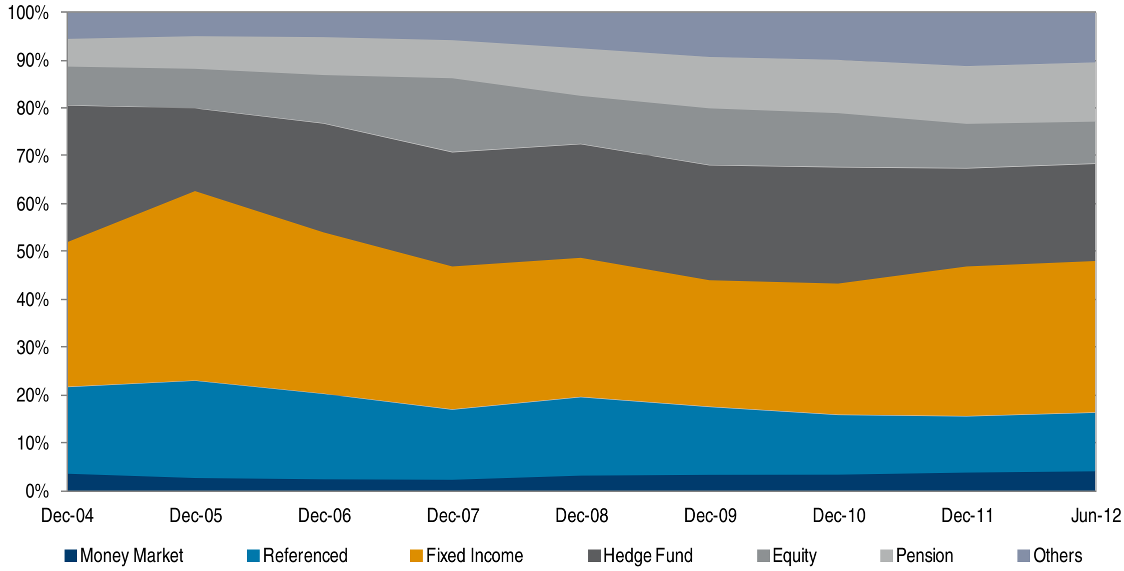
Referenced Funds. Reference funds aim to have at least 95% of their portfolio composed of securities that directly or indirectly follow the variations of the CDI or SELIC rates. Although the securities portfolio of referenced funds is comprised of variable-rate securities, oscillations can occur due to the risk perception of these securities.

Pension Funds. Pension funds are divided into (i) fixed-income pension funds, (ii) balanced pension funds, (iii) multi-market pension funds, (iv) target-date pension funds, and (v) share pension funds. Fixed-income pension funds seek returns through investments in fixed-income assets, using strategies to generate returns on interest rates and price indexes linked to the Brazilian market. Balanced pension funds seek long-term returns by investing in various asset classes, including fixed-income, and equities. These funds use a diversified investment strategy for acquiring assets, and generally invest a portion of their portfolio in variable-income assets. Multi-market pension funds seek long-term returns by investing in various asset classes. These funds do not disclose their asset mix (i.e., percentage of each asset class) and may be measured against other performance indicators that reflect only one asset class. Target-date pension funds seek returns by a target-date by investing in various asset classes and using a periodic rebalancing strategy. These funds seek to reduce risk exposure in accordance with the time remaining until the respective target-date. These funds cannot be measured against performance indicators that reflect only one asset class. Share pension funds are required to have at least 67% of its portfolio in cash equities, subscription warrants, share deposit certificates, quotas of stock funds, quotas of stock index funds or Brazilian Depositary Receipts under Level II or Level III.

Hedge Funds. A hedge fund is an investment fund that typically undertakes a wider range of investment and asset trading than other funds, but which is only open for investment from particular types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or HNWIs. Hedge funds invest in a diverse range of assets, but they most commonly trade liquid securities on public markets. These funds usually employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

Notwithstanding the significant growth and size of Brazil's equity capital market, a significant portion of total AUM remains concentrated in fixed income and money market funds, due in part to the legacy of high interest rates in Brazil. As of December 31, 2011, the total amount invested in fixed income and money market funds together represented approximately 47% of total AUM, while hedge funds, equity funds and pension funds represented approximately 21%, 9% and 12%, respectively. The remaining 11% of total AUM represents currency and other types of funds.

The graph and chart below illustrate the volume (in R$ billions) and percentage of each type of fund which comprise the Brazilian asset management industry for the periods indicated:



Source: ANBIMA

Type of Fund	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Mar-12	Jun-12
Money Market	33	30	33	36	44	58	63	78	86	88
Referenced	163	218	235	220	219	240	225	234	263	257
Fixed Income	274	427	446	453	392	451	500	630	660	671
Hedge Fund	258	186	299	359	318	406	440	409	437	427
Equity	74	90	135	234	137	205	209	191	203	189
Pension	52	74	105	121	133	180	200	239	251	258
Others	50	53	68	88	101	159	181	226	237	222
Total	**904**	**1,078**	**1,320**	**1,510**	**1,344**	**1,699**	**1,818**	**2,009**	**2,137**	**2,112**

Source: ANBIMA

Private Equity

The investment period of a private equity fund is usually mid- to long-term. Returns on private equity investments are generated through one, or a combination of, the following three factors: (i) accumulation of cash flows from operations; (ii) improvement of earnings over the life of the investment; and (iii) sale of a business for higher multiple of earnings than the original purchase price. Exit strategies used by private equity funds include initial public offerings and selling a business to new investors.

The private equity industry in Brazil has expanded in recent years, partially leveraging from an earlier period of private growth from 1994 to 2000.

In recent years, private equity firms have been tapping capital markets in Brazil extensively in order to fund portfolio companies' growth and to recycle funds' portfolios. We believe the private equity industry in Brazil will continue to grow given the number of firms currently interested in investing or building investment platforms in Brazil.

We believe that the current favorable economic condition is the main driver behind the growth of the Brazilian private equity industry. The emerging middle class, eager to benefit from ever increasing disposable income and credit availability, is boosting internal consumption across a broad range of products, from food to government-subsidized housing, making Brazil one of the leading consumer markets worldwide. The Brazilian government is stimulating this growth, mainly by means of large investments in infrastructure, including the World Cup in 2014 and the Olympic Games in 2016. Other sectors such as commodities and energy will continue to play an important role in the continued growth of Brazilian GDP, backed by solid internal and external consumer markets. Growth, consolidation and governance, this is the Brazilian landscape of the industry, which, in the country work basically in all equity deals.

According to a report published by the 2011 Latin America Venture Capital Association, or LAVCA, Latin American private equity investment activity reached US$6,504 million in 2011, representing a decrease of 9.7% over 2010. Brazil has become the major market for private equity in Latin America. Within Latin America, Brazil was home to the largest percentage of investments in 2010, accounting for 64% of investments by value and 50% of investments by number of deals. In 2011, Latin American fundraising activity increased 27% compared to 2010, reaching US$10,300 million, of which Brazil captured US$8.1 billion, or approximately 78.6% of the total funds raised, illustrating the strength of Brazil's experienced asset managers and the desire of global investors to invest in Brazil.

As a result of Brazil's prominence as a major market for private equity investment, many international funds that previously only invested opportunistically in Brazil are now establishing local offices and raising local funds. This growth was a result of the positive performance of Brazilian equity capital markets, which allowed private equity firms to recycle their portfolios and fund growth. In addition, Brazil's growing middle class coupled with a positive outlook for Brazil's exports created opportunities for further investments in consumer-related and infrastructure sectors. Furthermore, oil services and shipbuilding industries should attract private equity firms for several years to come, in light of the increasingly positive outlook of pre-salt and offshore exploration.

According to a recent survey published by the Emerging Markets Private Equity Association, or EMPEA, and Coller Capital, Brazil is the most attractive emerging market for private equity investments in 2011.

In addition, fundraising has increased for private equity investments in other emerging markets as well. The table below shows, for the periods indicated, fundraising activity in selected economies:

Region	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
Brazil	**270**	**230**	**480**	**158**	**2,098**	**2,510**	**3,589**	**401**	**1,078**	**7,079**	**675**
China	105	213	311	2,243	4,279	3,890	14,461	6,617	7,509	16,616	3,977
India	142	236	706	2,741	2,884	4,569	7,710	3,999	3,268	2,737	1,225
Russia/CIS	100	175	200	1,254	222	1,790	880	455	75	135	82
South Africa	151	741	340	348	1,190	546	218	N/A	423	n.a.	n.a.

Source: Emerging Markets Private Equity Association, IMF

In addition to this increase in fundraising, private equity investments have increased overtime and, although adversely impacted by recent market developments, activity in Brazil has remained at high levels over the last years, as demonstrated in the table below.

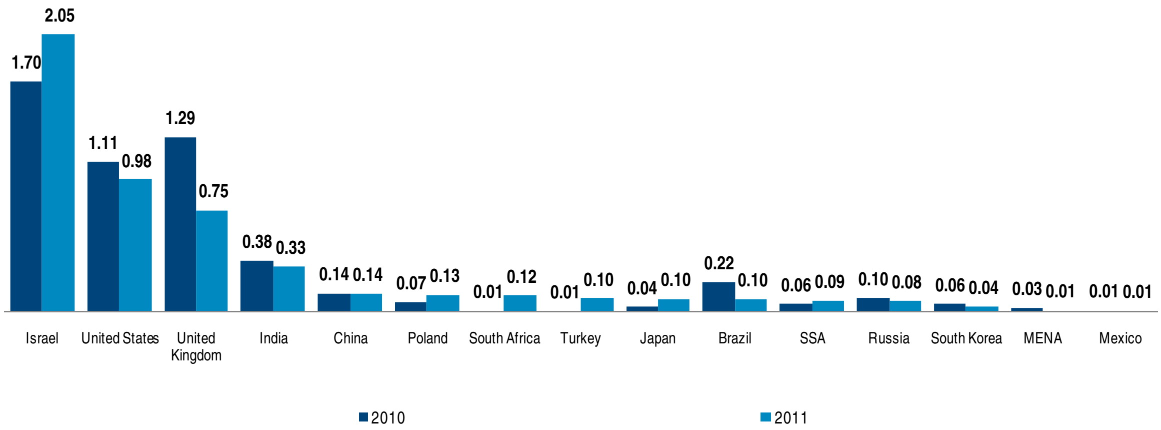
EM PE Investment Totals by Select Markets, 2003–1H 2012 (US$ millions)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
Brazil	**321**	**120**	**474**	**1,342**	**5,285**	**3,020**	**989**	**4,604**	**2,461**	**1,271**
China	1,667	1,389	2,991	8,200	9,458	8,994	6,288	9,190	10,529	3,962
India	456	1,272	1,377	5,687	9,905	7,483	4,011	6,222	6,172	1,571
Russia/CIS	113	240	240	402	805	2,647	217	1,516	1,579	639

Source: Emerging Markets Private Equity Association, IMF

Although Brazil has experienced a large inflow of capital into private equity investments in recent years, the Brazilian market remains under penetrated compared to other BRIC countries, and especially compared to the United States. According to EMPEA, private equity investment as a percentage of GDP in Brazil was only 0.10% in 2011, while the United States and United Kingdom presented a 0.98% and 0.75% penetration in 2011, respectively.

The graph below shows, as of December 31, 2010 and 2011 the percentage of GDP that private equity investments represents for each of the countries listed:



Source: Emerging Markets Private Equity Association, IMF

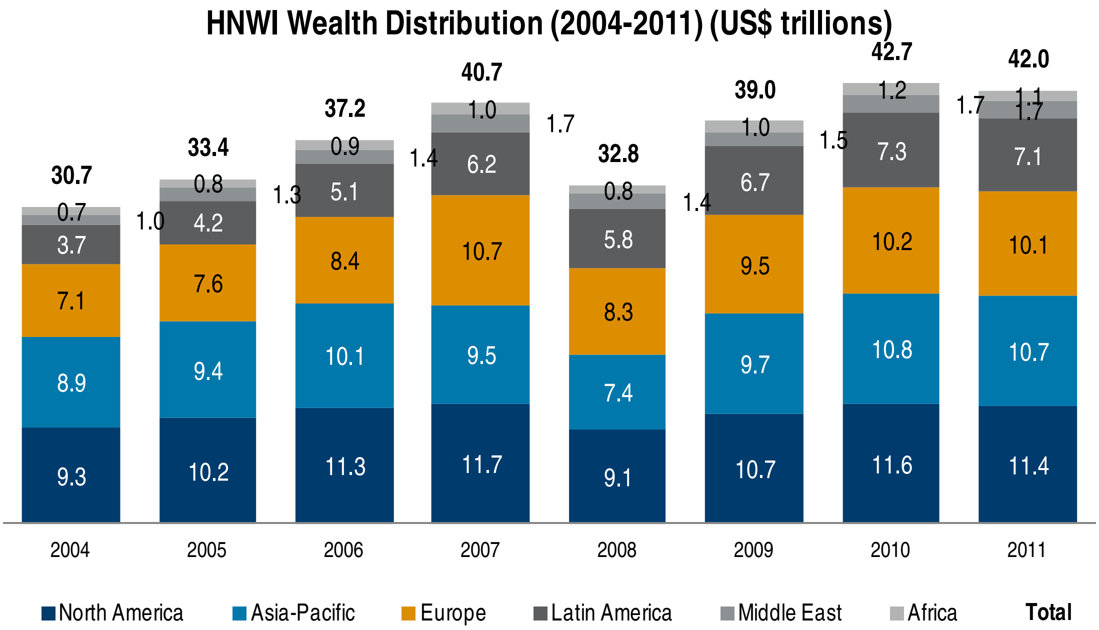
Wealth Management

The wealth management industry typically provides services to HNWI, including highly customized and sophisticated investment management services, financial planning consultancy, trust advisory services and other advisory services in connection with estate planning, business succession and small-scale M&A transactions, among others.

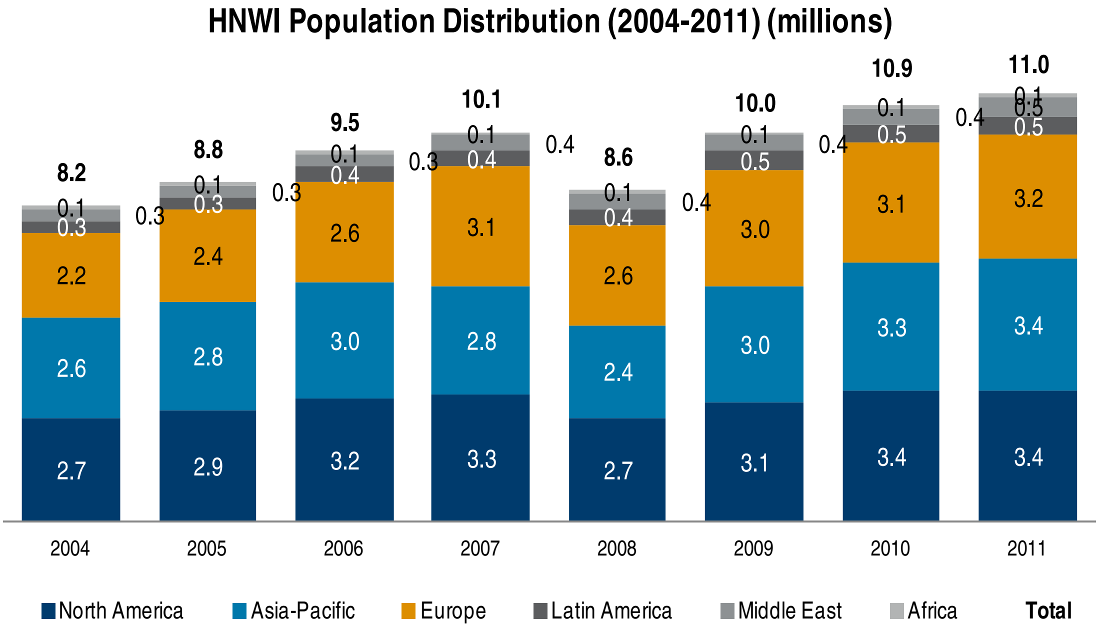
While the HNWI population increased slightly, overall investable wealth has declined in recent years. The overall financial global wealth of HNWI declined across all regions in 2011, with the exception of the Middle East, according to the World Wealth Report 2012. However, despite the 1.7% decline in investable wealth to US$42.0 trillion, the global HNWI population grew marginally by 0.8% to 11 million in 2011.

In 2011, Asia-Pacific became the region with the largest number of HNWIs, while North America retained the most HNWI wealth. The number of HNWIs in Asia-Pacific expanded 1.6% to 3.37 million in 2011, making Asia-Pacific the largest HNWI region for the first time. North America remained the largest region for HNWI wealth at US$11.4 trillion. U.S, Japan and Germany, retained 53.3% of the total share of HNWIs, slightly up from 53.1% in 2010. Of the top twelve countries by population, Brazil saw the greatest percentage rise (6.2%) in the number of HNWIs in 2011.

The following graphs show the amount of wealth (in R$ trillions) and the HNWI across various regions around the world as of December 31 for the years indicated:



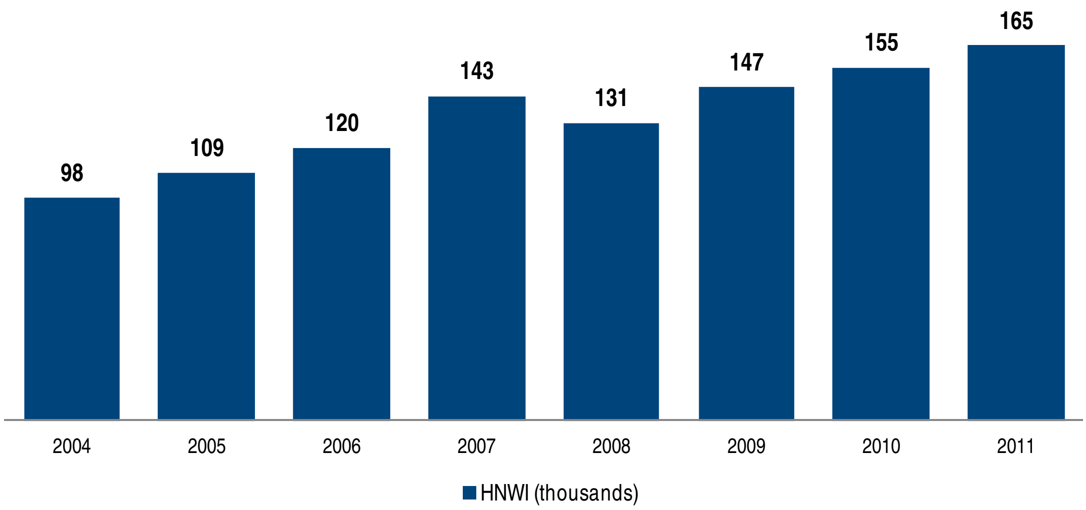
Source: World Wealth Report



Source: World Wealth Report

According to the World Wealth Report, Brazil is one of the largest economies in terms of HNWI, with approximately 165,000 individuals. From 2004 through 2011, Brazil had a compounded annual growth rate of 7.7% in terms of HNWI for such period.

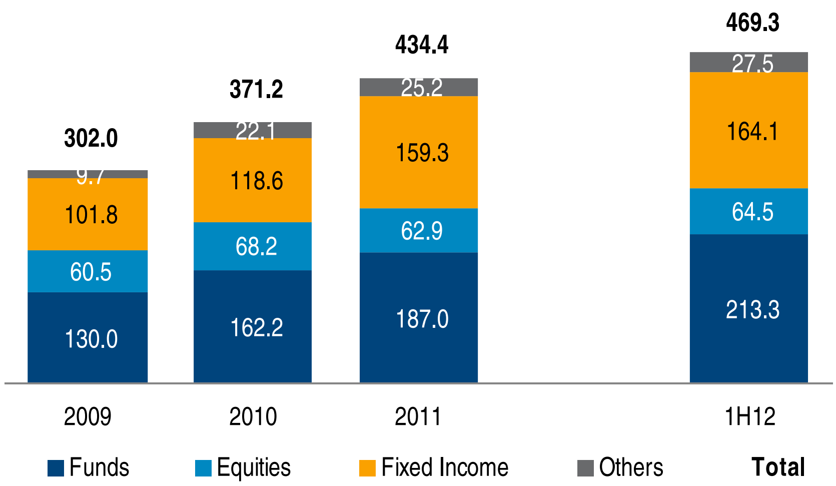
The graph below illustrates the number of HNWI in Brazil from 2004 through 2010:



Source: World Wealth Report

According to data from ANBIMA, as of June 30, 2012, the Brazilian private banking segment had a total of R$469.3 billion in AUM. Of this total, 35.0% is invested in fixed income products, 45.5% in investment funds (open-ended, closed-ended funds and structured funds), 13.7% in equities and 5.8% in other assets.

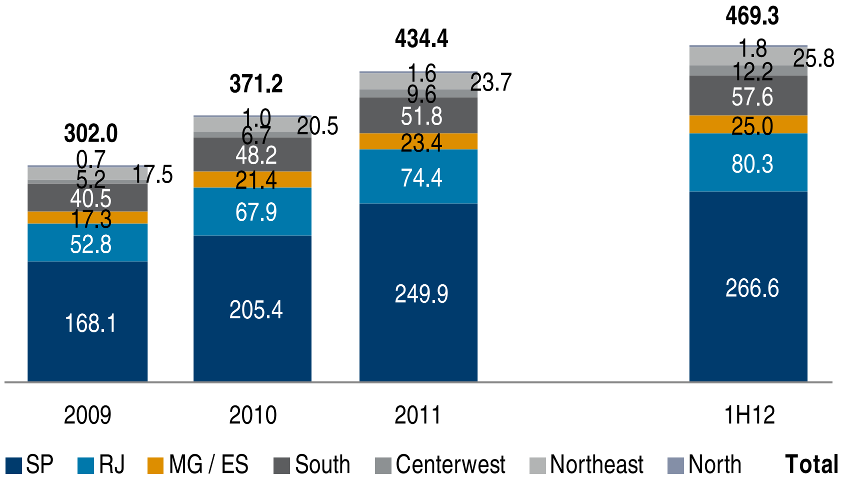
The graph below illustrates the breakdown of wealth (in R$ billions) in Brazil by investment segments:



Source: ANBIMA

The majority of Brazil's high net worth individuals are located in two states, São Paulo and Rio de Janeiro. As of June 30, 2012, São Paulo and Rio de Janeiro accounted for 56.8% and 17.1%, respectively, of all of Brazil's high net worth individuals. With the expected growth of the Brazilian economy through the diversification of businesses and geographical regions, this concentration may decrease in the future, thus representing an opportunity for the wealth management industry to explore different markets.

The graph below illustrates the breakdown of wealth (in R$ billions) in Brazil by geographical regions:



Source: ANBIMA

REGULATORY OVERVIEW

The Brazilian Financial System and Banking Regulation

Regulatory Framework

The basic institutional framework of the Brazilian financial system was established in 1964 by the Banking Reform Law. The Banking Reform Law created the CMN, which is responsible for examining monetary and foreign currency policies pertaining to economic and social development, as well as overseeing the operation of the financial system.

Principal Regulatory Agencies

The Brazilian national financial system (*Sistema Financeiro Nacional*) is composed, among others, of the following regulatory and inspection bodies:

- the CMN;
- the Central Bank;
- the CVM;
- the Brazilian Council of Private Insurance (*Conselho Nacional de Seguros Privados*);
- the SUSEP; and
- the National Superintendence of Private Pension (*Superintendência Nacional de Previdência Complementar*).

Below is a summary of the main functions and powers of the most relevant of these regulatory bodies.

The CMN

The CMN is the chief authority for monetary and financial policy in Brazil, responsible for the overall supervision of Brazilian budgetary, credit, fiscal, monetary and public debt policies.

The members of the board of CMN are the Minister of Finance (chairman), the Minister of Planning, Budget and Management and the President of the Central Bank. The CMN has the authority to regulate the credit operations of Brazilian financial institutions and Brazilian currency, to supervise Brazil's foreign exchange and gold reserves, to establish Brazilian saving and investment policies and to regulate the Brazilian capital markets with the overarching purpose of promoting economic and social development of Brazil. The CMN also oversees the activities of the Central Bank and the CVM. Specifically, the main responsibilities of the CMN are the following:

- coordinating monetary, credit, budget, tax and public debt policies;
- establishing foreign exchange and interest rate policy;
- protecting the liquidity and solvency of financial institutions;
- overseeing activities related to the stock exchange markets;
- regulating the structure and operation of financial institutions;
- granting authority to the Central Bank to issue currency and establishing reserve requirement levels; and
- establishing general directives for banking and financial markets.

The Central Bank

The Central Bank is responsible for implementing policies of the CMN as they relate to monetary and exchange control matters, regulating public and private sector Brazilian financial institutions and monitoring and regulating foreign investment in Brazil. The President of the Central Bank is appointed by the President of Brazil for an indefinite term of office subject to ratification by the Brazilian Senate.

Specifically, the main responsibilities of the Central Bank are the following:

- managing the day-to-day control over foreign capital inflows and outflows (risk capital and loans in any form);
- setting forth the administrative rules and regulations for registering investments;
- monitoring foreign currency remittances;
- controlling the repatriation of funds (in the event of a serious deficit in Brazil's balance of payments, the Central Bank may limit remittances of profit and prohibit remittances as capital for a limited period of time);
- receiving compulsory withholdings and voluntary demand deposits of financial institutions;
- executing rediscount transactions and loans to banking financial institutions and other institutions authorized to operate by the Central Bank;
- acting as a depositary of gold and foreign currency reserves; and
- controlling and approving the incorporation, functioning, transfer of control and equity reorganization of financial institutions and other institutions authorized to operate by the Central Bank.

The CVM

The CVM is the agency responsible for implementing policies established by the CMN and regulates, develops, controls and inspects the securities market. The CVM is headquartered in Rio de Janeiro and has jurisdiction in all Brazilian territory. The CVM is an independent agency linked to the Ministry of Finance. It has independent administrative authority and legal standing. The main responsibilities of the CVM are the following:

- implementing and regulating the securities and exchange policies established by the CMN; and
- controlling and overseeing the Brazilian securities market by: approving, suspending and canceling the registration of public companies; authorizing brokers and dealers to operate in the securities market and public offerings of securities; supervising the activities of public companies, stock exchanges, commodities and futures exchanges, market members, and financial investment funds and variable income funds; requiring full disclosure of material events affecting the market, annual and quarterly reporting by public companies; and imposing penalties.

Since 2001, the CVM has had jurisdiction to regulate and oversee the derivatives' market and financial and investment funds that were originally regulated and supervised by the Central Bank. Pursuant to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303, of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds and of transactions involving derivatives were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. In accordance with the Brazilian Securities Exchange Law, the CVM is managed by one president and four directors as appointed by the President of Brazil (and approved by the Senate). The individuals appointed to the CVM must be of good standing and recognized as experts in the field of capital markets. CVM directors are appointed for a single five-year term and one-fifth of the members must be renewed on a yearly basis.

All decisions rendered by the CVM and the Central Bank in administrative proceedings relating to the national financial system and the securities market are subject to appeal to the Board of Appeals of the National Financial System (*Conselho de Recursos do Sistema Financeiro Nacional*), which is comprised of four members appointed by public authorities and four members from the private sector.

Banking Regulation

Principal Limitations and Restrictions on Financial Institutions

The activities of financial institutions are subject to limitations and restrictions. In general, such limitations and restrictions relate to the offering of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, administration of third party funds and microcredit finance.

The principal restrictions on banking activities established by the Banking Reform Law are as follows:

- no financial, banking or credit institution may operate in Brazil without the prior approval of the Central Bank. In addition, foreign banks must be expressly authorized to operate in Brazil by Presidential decree;

- a financial, banking or credit institution may not invest in the equity of any other company, except where such investment is approved by the Central Bank based on certain standards established by the CMN. However, investments are permitted without restrictions in such institutions through the investment banking unit of a multiple-service bank or a subsidiary of an investment bank;

- a financial, banking or credit institution may not own real estate other than the property it occupies, and is subject to certain limitations imposed by the CMN. If a financial, banking or credit institution takes possession of real estate in satisfaction of a debt, such property must be sold within one year, unless otherwise authorized by the Central Bank;

- financial institutions are prohibited from carrying out transactions that fail to comply with the principles of selectivity, guarantee, liquidity and risk diversification;

- financial institutions are prohibited from granting loans or advances without an appropriate deed evidencing such debt;

- a financial, banking or credit institution may not lend more than 25.0% of its reference shareholders' equity (*Patrimônio de Referência*, or "PR") to any single person or group;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, any company which holds more than 10.0% of its shares, except (subject to the prior approval of the Central Bank) in certain limited circumstances;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, any company in which it holds more than 10.0% of the share capital;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, its executive officers and directors (including their immediate and extended families) or to any company in which such executive officers and directors (including their immediate and extended families) hold more than 10.0% of the share capital;

- financial institutions are prohibited from carrying out repurchase transactions (*operações compromissadas*) in excess of an amount corresponding to 30 times their PR;

- the administration of third party funds should be segregated from other activities and in compliance with the relevant rules imposed by the CVM;

- the registered capital and total net assets of financial institutions must be compatible with the rules governing share capital and minimum capitalization requirements imposed by the Central Bank for each type of financial institution;

- the total amount of funds applied in the fixed assets of financial institutions cannot exceed 50.0% of the respective amount of PR; and

- financial institutions may not expose themselves to gold, assets or liabilities referenced in currency exchange variations in excess of 30.0% of their PR.

Capital Adequacy and Leverage

The Central Bank supervises the Brazilian banking industry in accordance with the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, and other applicable regulations, including the Basel II Accord, which is currently being implemented. The banks provide the Central Bank with the necessary information for it to perform its supervisory functions, which include supervising the movements in the solvency or capital adequacy of banks.

The main principle of the Basel II Accord, as implemented in Brazil, is that a bank's own resources must cover its principal risks, including credit risk, market risk and operational risk. The requirements imposed by the Central Bank differ from the Basel II Accord in a few aspects. Among these differences, the Central Bank:

- imposes a minimum capital requirement of 11.0% instead of the 8.0% imposed by the Basel II Accord;

- assigns different risk weighting and credit conversion factors to some assets, including a risk weighting of 300.0% on deferred tax assets other than temporary differences;

- requires calculation and report on the minimum capital and capital ratios on a consolidated basis;

- requires banks to set aside a portion of their equity to cover operational risks as from July 1, 2008;

- does not allow the use of external rating to calculate the minimum capital required. The Central Bank adopts a conservative approach to defining the capital demand of corporate exposures; and

- requires banks to establish specific internal structures to identify, measure, control and mitigate operational and credit risks.

A bank's capital base composition, for supervisory purposes, is defined in two tiers according to Brazilian rules. Such requirement is called PR:

- Tier I: Corresponds to the sum of amounts corresponding to net assets, the balance of profit and losses accounts of creditors and deposits in escrow accounts to cover capital shortages (pursuant to the terms of CMN Resolution No. 3,398 of August 29, 2006), excluding amounts corresponding to: (i) debtor profit and loss account balances; (ii) re-evaluation reserves, contingency reserves and special reserves for profits relating to non-distributed mandatory dividends; (iii) preferential shares issued with a redemption clause and preferential shares with the accumulation of dividends; (iv) tax credit (as set forth in CMN Resolution No. 3,059 of December 20, 2002); (v) permanent deferred assets, discounting the goodwill paid in the acquisition of investments; and (vi) the balance of unearned gains and losses resulting from the adjustment in the market value of securities classified as "securities available for sale" and derivative financial instruments used for cash flow hedge.

- Tier II: Corresponds to the sum of amounts corresponding to re-evaluation reserves, contingency reserves and special profit reserves relating to non-distributed mandatory dividends added to amounts corresponding to: (i) hybrid capital and debt contracts (as defined in CMN Resolution No. 3,444), subordinated debt contracts, preferential shares issued with a redemption clause and preferential shares with the accumulation of dividends issued by financial institutions; and (ii) the balance of unearned gains and losses resulting from the adjustment in the market value of securities classified as "securities available for sale" and derivative financial instruments used for cash flow hedge.

The total amount of Tier II capital cannot exceed the total amount of Tier I capital, and Brazilian regulation imposes limits on Tier II capital, as follows:

- subordinated debt in Tier II capital, plus the amount of preferred redeemable stock originally maturing in less than ten years, cannot exceed 50.0% of the Tier I capital;

- revaluation reserves in Tier II capital cannot exceed 25.0% of the Tier I capital;

- the total amount of hybrid capital and debt instruments authorized by the Central Bank to be included in Tier I capital is limited to 15.0% of the total amount of Tier I capital; and

- a 20.0% reduction shall be applied to the amount of the subordinated debt and preferred redeemable stock in Tier II capital annually for the five years preceding the respective maturities.

Additionally, the following components are deducted from capital: (i) amounts paid into investment funds' capital, proportionate to the interest on each fund's portfolio; (ii) acquisition or indirect interest on financial conglomerates, through any non-financial affiliated entity; and (iii) assets related to funding instruments such as hybrid capital instruments, debt instruments and subordinated debt issued by financial institutions and other institutions authorized to operate by the Central Bank.

In addition to minimum capital and shareholders' equity requirements, financial institutions must also maintain a level of PR that is compatible with the risks to which their assets, liabilities and compensation accounts are exposed. Financial institutions may only distribute profits that exceed the legal capital adequacy requirement.

According to CMN Resolution No. 2,723, as amended, financial institutions, except credit unions, must keep consolidated accounting records (including for the purposes of calculation of their capital requirements) of their corporate holdings whenever, directly or indirectly, individually or jointly with other partners (even when based on voting trusts), the institutions hold a controlling interest in the investees. When capital control is not involved, the financial institution may opt for accounting using equity accounting method in lieu of such consolidated accounting.

In June 2004, the Basel Committee approved the Basel II Accord, a new framework for risk-based capital adequacy. The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for banking organizations. Pursuant to the Central Bank Communication No. 19,028 of October 29, 2009, the recommendations of the Basel II Accord will be implemented by the second half of 2013, beginning in 2010 with market risk.

CMN Resolution No. 3,380, issued on June 29, 2006, sets forth new procedures for the implementation of operating risk internal control procedures whereby Brazilian banks were required to implement the principles of the Basel II Accord by the end of 2007.

On February 28, 2007, CMN Resolution No. 3,444 established the criteria for calculation of PR. In addition, on August 29, 2007, CMN Resolution No. 3,490 established new criteria for calculating the required reference shareholders' equity capital (PRE) of financial institutions effective from July 1, 2008.

On September 27, 2007, the Central Bank set out a revised schedule for the adoption of the Basel II Accord through Communications No. 16,137 and No. 19,028, indicating that the requirements relating to the use of advance methods for the valuation of capital will be fully implemented by the first half of 2013.

CMN Resolution No. 3,464 of June 26, 2007, as amended, sets forth the procedures for the implementation of a market risk internal control structure. CMN Resolution No. 3,488 of August 29, 2007 sets forth the limits for the total exposure of financial institutions in gold, foreign currency and transactions subject to foreign exchange variation. CMN Resolution No. 3,490 of August 29, 2007, as amended, provides for capital measurement and standards methodology based on a weighted risk asset ratio.

On January 13, 2011, the Basel Committee introduced Basel III, which expanded on the Basel II capital rules with additional requirements applicable to non-common Tier I or Tier II instruments issued by internationally active banks. The additional requirements would apply to all instruments issued after January 1, 2013; otherwise qualifying instruments issued prior to that date would be phased out proportionately over a ten-year period, beginning in 2013.

On June 28, 2010, the Central Bank also published Circular No. 3,498, which introduces additional capital requirements for the trading book under stressed value-at-risk (VaR) based on historical data from a continuous 12-month period of significant financial stress. The implementation of these regulatory reforms may significantly impact the computation of our regulatory capital requirements. A gradual implementation of the above mentioned reforms will occur beginning in 2012 until 2019.

On February 17, 2011, the Central Bank issued Communication No. 20,615, whereby the Central Bank indicated its willingness to implement the provisions Basel III. This communication sets forth preliminary guidance and a timeline for the implementation of Basel III recommendations, which in broad terms, revise the definition of Tier I Capital, introduce Tier I common equity as a regulatory metric, set new minimum capital ratios, make substantial revisions to the computation of risk-weighted assets for credit exposures and introduce a leverage ratio requirement.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements. In addition, they fully endorsed previous agreements regarding the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders summit in November 2010. The package of reforms proposed by the Basel Committee will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirements to 7%. The new rules are expected to be implemented gradually by the central banks of various countries between 2013 and 2019.

On January 13, 2011, the Basel Committee expanded on the Basel II capital rules with additional requirements, known as the January 13 Annex, applicable to non-common Tier 1 or Tier 2 instruments issued by internationally active banks. The additional requirements would apply to all instruments issued after January 1, 2013, and otherwise qualifying instruments issued prior to January 1, 2012 will be phased out proportionately over a ten-year period, beginning in 2013. On February 17, 2011, the Central Bank issued Communication No. 20,615, pursuant to which the Central Bank indicated its willingness to implement the provisions of the January 13 Annex. For such purpose, the Central Bank will need to issue further regulations, which is expected to begin soon, according to the non-binding schedule set forth by Communication No. 20,615. Among other reforms to the Brazilian regulatory framework, the Central Bank intends to change the definition of reference shareholders' equity (PR) for Brazilian financial institutions, which is currently set forth by CMN Resolution No. 3,444, dated February 28, 2007.

Reserve and Other Requirements

Currently, the Central Bank imposes a series of requirements on financial institutions regarding compulsory reserves. Financial institutions must deposit reserves with the Central Bank. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system.

Some of the current types of reserves required under Brazilian law include:

Demand Deposits. Pursuant to Circular No. 3,274 of February 10, 2005, as amended by Circular No. 3,323 of May 30, 2006, Circular No. 3,497 of June 24, 2010 and Circular No. 3,603 of June 28, 2012, banks and other financial institutions are generally required to deposit 44.0% (to be increased to 45.0% as of July 2014) of the daily average balance of their demand deposits, bank drafts, collection of receivables, collection of tax receipts, debt assumption transactions and proceeds from the realization of guarantees granted to financial institutions in excess of R$44.0 million with the Central Bank on a non-interest bearing basis. At the end of each day, the balance in such account shall be equivalent to at least 80% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Savings Accounts. Currently, pursuant to Circular No. 3,128 dated June 24, 2002, the Central Bank has established that Brazilian financial institutions are generally required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 20.0% of the average aggregate balance of savings accounts during the prior week. In addition, a minimum of 65.0% of the total amount of deposits in saving accounts captured by the entities of the Brazilian Savings and Loan System (*Sistema Brasileiro de Poupança e Empréstimo*, or SBPE) must be used to finance residential real estate or the housing construction sector, as determined by CMN Resolution No. 3,932, of December 16, 2010. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate financings, mortgage notes, charged off residential real estate loans and certain other financings, all as specified in guidance issued by the Central Bank.

Pursuant to CMN Resolution No. 3,023 of October 11, 2002, as amended, the Central Bank established an additional reserve requirement of 10% on the savings account funds captured by the entities of the SBPE. CMN Resolution No. 3,843 of March 10, 2010, sets forth that this additional reserve requirement shall be deposited in cash and will bear interest at a SELIC-based interest rate.

Time Deposits. Pursuant to Central Bank Circular No. 3,569, of December 22, 2011, as amended, 20% of a financial institutions' time deposits and certain other amounts, after a deduction of R$30.0 million, are subject to reserve requirements, in the amount exceeding: (i) R$3.0 billion, for financial institutions with Tier I component of the PR below R$2.0 billion; (ii) R$2.0 billion, for financial institutions with Tier I component of the PR equal to or higher than R$2.0 billion and below R$5.0 billion; (iii) R$1.0 billion, for financial institutions with Tier I component of the PR equal to or higher than R$5.0 billion and below R$15.0 billion; or (iv) zero, for financial institutions with Tier I component of the PR equal to or higher than R$15.0 billion. If the applicable reserve requirement of a financial institution is equal to or below R$0.5 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,569, although it must provide information to the Central Bank on time deposits held by it. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and, part of such deposits will bear interest at a SELIC-based rate. At the end of each day, deposited amounts shall be equivalent to 100% of the applicable reserve requirement.

Additional Reserve Requirement (Demand Deposits, Saving Accounts and Time Deposits). On August 14, 2002, the Central Bank issued Circular No. 3,144, as amended, which established an additional reserve requirement on deposits maintained in multiple-service banks, investment banks, commercial banks, development banks, credit, financing and investment companies, real estate companies and savings and loan associations.

Pursuant to such regulations, the aforesaid entities are required to reserve, on a weekly basis, the cash equivalent of the sum of the following amounts in excess of R$3.0 billion (for financial institutions with adjusted Tier I component of the PR below R$2.0 billion), R$2.0 billion (for financial institutions with Tier I component of the PR below R$5.0 billion and equal to or higher than R$2.0 billion), R$1.0 billion (for financial institutions with Tier I component of the PR below R$15.0 billion and equal to or higher than R$5.0 billion), or zero (for financial institutions with Tier I component of the PR equal to or higher than R$15.0 billion): (i) 6% (to be increased to 11% as of November 2012) of the arithmetic average of the time deposits funds and certain other amounts subject to the respective reserve requirement; (ii) 10% of the arithmetic average of the savings deposits funds subject to the respective reserve requirement; and (iii) 12% (to be reduced to 0% as of October 2012) of the arithmetic average of the demand deposits funds subject to the respective reserve requirement. If the applicable reserve requirement of a financial institution is equal to or below R$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,144 and amendments thereto. The reserve requirement must be met in cash in a specific account and, at the end of each day, the balance in such account shall be equivalent to 100% of such additional reserve requirement.

Deposits and Guarantees. Pursuant to Circular 3,090 of March 1, 2002, financial institutions are required to deposit with the Central Bank, on a non-interest bearing basis, an amount in cash equivalent to 45.0% of the amounts corresponding to the sum of the average balance of (i) deposits made by individuals or legal entities domiciled abroad, compulsory deposits and tied deposits (*depósitos vinculados*) in excess of R$2.0 million and (ii) agreements with assumption of obligation related to transactions carried out in Brazil and guarantees granted by them (*garantias realizadas*) in excess of R$2.0 million. At the end of each day, the balance in such account shall be equivalent to at least 100% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Foreign currency. Pursuant to Circular No. 3,548, of July 8, 2011, financial institutions authorized to carry out foreign exchange transactions are required to deposit 60% of their daily exposure in foreign currencies exceeding the lesser of: (i) the amount equivalent to US$1.0 billion; or (ii) the amount equivalent to the Tier I component of the PR of the financial institution. Financial conglomerates may calculate these reserve requirements on a consolidated basis, in which case a 60% rate will be applied over the financial conglomerate's daily exposure in foreign currencies, deducted from the daily long positions in foreign currencies, exceeding the lesser of: (i) the amount equivalent to US$1.0 billion; or (ii) the amount equivalent to the Tier I component of the PR of the financial conglomerate. Deposits will be made with the Central Bank on a non-interest bearing basis. If the applicable reserve requirement of a financial institution or financial conglomerate is equal to or below R$0.1 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,548.

In addition, in the past, the Central Bank imposed certain compulsory deposit requirements on other types of transactions that are no longer in effect. However, the Central Bank may restore these requirements or impose similar or more stringent restrictions in the future.

Asset Composition Requirements

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred charges) of Brazilian financial institutions may not exceed 50.0% of the sum of their PR, calculated in accordance with criteria established by the Central Bank.

Brazilian financial institutions cannot have more than 25.0% of their PR allocated to credit transactions (including guarantees) extended to the same customer (including its parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their PR.

Repurchase Transactions

Repurchase transactions (*operações compromissadas*) are sale and repurchase agreements involving the sale of securities. Repurchase transactions carried out in Brazil are subject to operating capital limitations based on the financial institution's PR. A financial institution may only carry out repurchase transactions for an amount up to 30 times its PR. Within this limitation, repurchase transactions involving private bonds may not exceed five times the amount of PR.

Transactions with Affiliates

Law No. 7,492, enacted on June 16, 1986, which regulates crimes against the Brazilian financial system, defines as a crime the extension of credit by a financial institution to any of its directors or officers and certain of their family members, as well as any entity controlled directly or indirectly by such financial institution or which is subject to common control of such financial institution (except loans to leasing subsidiaries). Violations of Law No. 7,492 are punishably by two to six years' imprisonment and a fine. On June 30, 1993, the Central Bank issued Resolution No. 1,996, which requires any such transaction to be reported to the Public Ministry's office.

Foreign Currency Loans

Pursuant to Central Bank regulation, financial institutions may borrow foreign currency denominated funds in international markets without obtaining the Central Bank's prior written consent, including to on-lend such funds to Brazilian individuals or companies in Brazil and other financial institutions. Banks make these on-lending transactions through loans payable in *reais*, though they are adjusted by foreign currency variation. The lending terms must reflect the terms of the original transaction. The interest rate charged on the underlying foreign loan must also be consistent with international market practices. In addition to the original cost of the transaction, the financial institution may only charge an additional on-lending fee.

The Central Bank may set limitations on the term, interest rate and general conditions of foreign currency loans. The Central Bank may change such limitations depending on the economic environment and the Brazilian government's monetary policy.

Substantially all foreign credit operations are subject to registration with the electronic system of the Central Bank, through the so-called RDE-ROF Module. Failure to correctly inform the Central Bank of the terms of such foreign credit transaction may subject the financial institution to warnings and fines.

Treatment of Overdue Debts

The Central Bank requires financial institutions to classify credit transactions in accordance with their level of credit risk as either, "AA," "A," "B," "C," "D," "E," "F," "G" or "H" and make provisions according to the risk level attributed to each transaction. Such credit classifications are determined in accordance with criteria set forth from time to time by the Central Bank relating to: (i) the condition of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration and quality of controls, delay in payments, contingencies and credit limits; and (ii) the terms of the transaction, such as its nature and purpose, type of collateral and, in particular, its level of liquidity and the total amount of the credit. Where there are several credit transactions involving the same customer, economic group or group of companies, the credit risk must be determined by analyzing the particular credit transaction of such customer or group which represents the greatest credit risk to the financial institution.

Credit transactions of up to R$50,000 may be classified either by the financial institution's own evaluation method or according to the number of days such transaction is past due, whichever is more stringent. Credit classifications are required to be reviewed:

- on a monthly basis, in the event of a delay in the payment of any installment of principal or interest, in accordance with the following maximum risk classifications:

(1) 1 to 14 days overdue: risk level A;

(2) 15 to 30 days overdue: risk level B;

(3) 31 to 60 days overdue: risk level C;

(4) 61 to 90 days overdue: risk level D;

(5) 91 to 120 days overdue: risk level E;

(6) 121 to 150 days overdue: risk level F;

(7) 151 to 180 days overdue: risk level G; and

(8) more than 180 days overdue: risk level H;

- every six months, in the case of transactions involving the same customer, economic group or group of companies, the amount of which exceeds 5.0% of the adjusted net worth of the financial institution in question; and
- once every 12 months, in all circumstances, except in the case of credit transactions with a customer whose total liability is lower than R$50,000, the classification of which may be reviewed as provided in item (1) above. Such R$50,000 limit may be amended by the Central Bank from time to time and

applies only to transactions entered into on or before February 25, 2000.

Failure to comply with the requirements established by the Central Bank will result in the reclassification of any transaction to risk level H.

Credit loss provisions must be made monthly by each financial institution in accordance with the following:

- 0.5% of the total amount of credit transactions classified as level A;
- 1.0% of the total amount of credit transactions classified as level B;
- 3.0% of the total amount of credit transactions classified as level C;
- 10.0% of the total amount of credit transactions classified as level D;
- 30.0% of the total amount of credit transactions classified as level E;
- 50.0% of the total amount of credit transactions classified as level F;
- 70.0% of the total amount of credit transactions classified as level G; and
- 100.0% of the total amount of credit transactions classified as level H.

Facilitation of Financial Sector Consolidation

The Brazilian government established a set of rules with the purpose of facilitating corporate reorganizations among financial institutions in order to assure the liquidity and solvency of the national financial system and safeguard the interests of depositors and investors. The main measures include: (i) granting the Central Bank power to determine the decrease in current levels of mandatory capitalization and to regulate the transfer of control and/or corporate restructuring of financial institutions; (ii) the establishment by the Central Bank of a special credit facility, known as the Program for the Improvement and Enhancement of the National Financial System (*Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional*), or PROER, for the specific purpose of financing financial institutions which acquire control or assets and obligations of other financial institutions or whose control is transferred to third parties; and (iii) the creation of certain tax benefits for the financial institutions which are financed by the PROER.

The PROER was created to protect savings and investments in Brazil. The PROER allows the Central Bank to intervene in order to protect against failures of financial institutions facing liquidity crises. The creation of the PROER streamlined the process by which the government could acquire control of a failing financial institution and granted the Central Bank authority to determine an appropriate course of action to prevent failure of any such financial institution, whether through a capital increase, merger, spin-off or otherwise.

Non-compliance by a financial institution with these rules could subject it to the Temporary Special Administration Regime (*Regime de Administração Temporária*), or RAET, as described below. The PROER was established to strengthen prudent supervision of financial institutions by means of verification of liquidity and asset quality. These measures were similar to current measures being implemented in the United States and Europe in response to the current global financial crisis.

Internal Compliance Procedures

All financial institutions must have in place internal policies and procedures to control:

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

The board of executive officers of the financial institution is responsible for implementing an effective internal controls structure by defining responsibilities and control procedures and establishing corresponding objectives and procedures at all levels of the institution. The board of executive officers is also responsible for verifying compliance with all internal procedures. The internal auditing department of a financial institution reports directly to the board of executive officers or management of the institution, as applicable. The external auditors are responsible for issuing a report on the internal control system.

Brazilian Payment and Settlement System

The rules for the settlement of payments in Brazil are based on the guidelines adopted by the Bank of International Settlements, or BIS. The Brazilian Payment and Settlement System (*Sistema de Pagamentos Brasileiro*), or SPB, began operating in April 2002. The Central Bank and the CVM have the power to regulate and supervise SPB. Pursuant to these rules, all clearing houses are required to adopt procedures designed to minimize the possibility of systemic crises and the risks previously articulated by the Central Bank. The most important principles of SPB are the following:

- the existence of two main payment and settlement systems: real time gross settlements, using the reserves deposited with the Central Bank; and deferred net settlements, through the clearing houses;
- the clearing houses, with some exceptions, will be liable for the payment orders they accept; and
- bankruptcy laws do not affect the payment orders made through the credits of clearing houses nor the collateral granted to secure those orders. However, clearing houses have ordinary credits against any participant under bankruptcy laws.

Insolvency Laws Concerning Financial Institutions in Brazil

Financial institutions are subject to the proceedings established by Law No. 6,024, enacted on March 13, 1974, and Decree No. 2,321 enacted on September 8, 1987, which establish the applicable provisions in the event of intervention, temporary administration or extra-judicial liquidation by the Central Bank, as well as to bankruptcy proceedings.

Intervention and extra-judicial liquidation occur when a financial institution is in a precarious financial condition or upon the occurrence of events that may impact the creditors' situation. Such measures are imposed by the Central Bank in order to avoid the bankruptcy of the entity.

Intervention

Pursuant to Law No. 6,024/74, the Central Bank has the power to appoint an intervener to intervene in the operations of or to liquidate any financial institution other than public financial institutions controlled by the Brazilian federal government. An intervention may be ordered at the discretion of the Central Bank if any of the following is detected:

- due to mismanagement, the financial institution has suffered losses leaving creditors at risk;
- the financial institution has consistently violated Brazilian banking laws or regulations;
- the financial institution fails to pay net debts as they fall due without a relevant legal reason;
- the financial institution is involved in enforcement proceedings and fails to pay or secure payment of the debt;
- the financial institution uses fraudulent means to pay debts;
- the financial institution calls the creditors to propose renegotiation of debts or assignment of assets;
- the financial institution delays payments or defrauds creditors (or seeks to delay payments or defraud creditors) by selling assets or entering into simulated transactions (sham);

- the financial institution sells its main assets to third parties without approval from all creditors and without remaining with sufficient assets to secure payment of debts;

- the financial institution creates (or seeks to create) security over assets, in respect of existing debts, without maintaining sufficient free and clear assets to secure payment of debts; or

- the financial institution leaves its establishment without a legal representative to run the business and without sufficient assets to pay creditors.

Except for the first two bullet points above, these situations would be grounds for an intervention only to the extent that it is a feasible alternative to the liquidation of the financial institution.

As of the date on which it is ordered, the intervention will automatically: (i) suspend the enforceability of payable obligations; (ii) suspend maturity of any previously contracted obligations; and (iii) freeze deposits existing on the date on which the intervention is ordered. The intervention ceases: (a) if interested parties undertake to continue the economic activities of the financial institution, by presenting the necessary guarantees, as determined by the Central Bank; (b) when the situation of the financial institution is normalized, as determined by the Central Bank; or (c) when extra-judicial liquidation or bankruptcy of the entity is ordered.

Intervention may also be ordered upon the request of a financial institution's management. Any such intervention period should not exceed six months, which may be extended only once for up to six additional months by the Central Bank. The intervention proceedings are terminated if the Central Bank establishes that the irregularities that have triggered an intervention have been eliminated. Otherwise, the Central Bank may extra-judicially liquidate the financial institution or authorize the intervener to file for voluntary bankruptcy under the Brazilian Bankruptcy Law, or BBL, among other situations, if the assets of the intervened institution are insufficient to satisfy at least 50.0% of the amount of its outstanding unsecured debts.

Extra-judicial Liquidation

Extra-judicial liquidation is an administrative proceeding ordered by the Central Bank (to financial institutions other than those controlled by the Brazilian federal government) and conducted by a liquidator appointed by the Central Bank. This extraordinary measure aims at terminating the activities of a troubled financial institution, liquidating its assets and paying its liabilities, as in an-extra judicially decreed bankruptcy.

The Central Bank will order the extra-judicial liquidation of a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they become due, or upon the occurrence of an event that indicates a state of insolvency under the rules of the BBL;

- management seriously violates Brazilian banking laws, regulations or rulings;

- the institution suffers a loss which subjects its unprivileged and unsecured creditors to severe risk; and/or

- upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days or, if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.

The decree of extra-judicial liquidation will: (i) suspend the actions or foreclose on rights and interests relating to the estate of the entity being liquidated, and no other actions or executions may be brought during the liquidation; (ii) accelerate the obligations of the entity; (iii) interrupt the statute of limitations with regard to the obligations assumed by the institution; (iv) avoid penalties provided in agreements that became due by virtue of the extra-judicial liquidation; (v) ratably deduct interest until the date when the debts are paid in full; (vi) avoid fines for infringement of criminal or administrative laws; and (vii) freeze all assets belonging to the managers (who acted as managers in the 12 months preceding the declaration of liquidation of the financial institution (this rule also applies to the intervention process)) until their respective liabilities are fully settled.

The extra-judicial liquidation will also cease: (i) if interested parties undertake to continue the company's business activities, by presenting the necessary guarantees, at the discretion of the Central Bank; (ii) with the approval of the final accounts of the liquidator and entry in the appropriate public registry; (iii) when converted into ordinary liquidation; or (iv) with a decree of bankruptcy.

On the other hand, a request for liquidation procedures can be filed on reasonable grounds by the officers of the respective financial institution or by the receiver appointed by the Central Bank in the receivership proceedings.

Temporary Special Administration Regime (RAET)

In addition to the intervention procedures described above, the Central Bank may also establish a RAET, which is a less intrusive form of intervention in private and non-federal public financial institutions. A RAET also allows troubled institutions to continue to operate their activities in the ordinary course. The RAET may be ordered in the case of an institution which:

- enters into recurrent operations that are against economic or financial policies set forth in federal law;
- faces a shortage of assets;
- fails to comply with the compulsory reserves rules;
- has reckless or fraudulent management;
- carries out activities which call for an intervention; or
- the occurrence of any of the situations described above that may result in a declaration of intervention.

The main objective of a RAET is to assist the troubled institution under special administration to recover and avoid intervention and/or liquidation. A RAET does not affect the day-to-day business, operations, liabilities or rights of the financial institution, which continues to operate in the ordinary course.

There is no minimum term for a RAET, but such procedure ceases upon the occurrence of any of the following events: (i) acquisition of control of the financial institution by the Brazilian federal government, (ii) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (iii) decision by the Central Bank or (iv) declaration of extra-judicial liquidation of the financial institution.

Repayment of Creditors in a Liquidation or Bankruptcy

In the event of extra-judicial liquidation or bankruptcy of a financial institution, creditors are paid pursuant to their priorities and privileges. Pre-petition claims are paid on a pro rata basis in the following order:

- labor claims, capped at an amount equal to 150 times the minimum wages per employee, and claims relating to occupational accidents;
- secured claims up to the encumbered asset value;
- tax claims, except tax penalties;
- claims with special privileges;
- claims with general privileges;
- unsecured claims;

- contractual fines and pecuniary penalties for breach of administrative or criminal laws, including those of a tax nature; and
- subordinated claims.

Super-priority and post-petition claims (for example, costs related to the liquidation or bankruptcy procedure), as defined under the BBL, are paid with preference over pre-petition claims.

In November 1995, the Central Bank created the Brazilian Credit Assurance Fund (*Fundo Garantidor de Crédito*), or FGC, to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy or other state of insolvency. The member entities of the FGC are financial institutions, which take demand, time and savings deposits, as well as savings and loan associations. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions that work with customer deposits.

The FGC is a deposit insurance system that guarantees, pursuant to CMN Resolution No. 4,087 of May 24, 2012, as amended, a maximum amount of R$70,000 of deposit and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In addition, two laws, introduced in 1995, affect the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. First, Law No. 9,069 confers immunity from attachment on compulsory deposits maintained by financial institutions with the Central Bank. Such deposits may not be attached in actions by a bank's general creditors for the repayment of debts. Second, Law No. 9,450 requires that the assets of any insolvent bank funded by loans made by foreign banks under trade finance lines be used to repay amounts owing under such lines in preference to those amounts owing to the general creditors of such insolvent bank.

Cancellation of Banking License

The Banking Reform Law, together with specific regulations adopted by CMN's Resolution No. 1,065 of December 5, 1985, as amended, provides penalties that can be imposed upon financial institutions in certain situations. Among them, a financial institution may be subject to the cancellation of its license to operate and/or to perform exchange transactions. Such a cancellation is applicable under certain circumstances established by the Central Bank, such as in the case of repeated violation of the Central Bank regulations by the management of the financial institution or negligence of the financial institution in pursuing adequate banking practices concerning its exchange activities.

Pursuant to CMN's Resolution No. 4,122 of August 2, 2012, the Central Bank may also cancel the financial institution's authorization to operate if one or more of the following situations occur: (i) failure to carry out the financial transactions that usually characterize the type of financial institution in which the respective entity is classified, (ii) operational inactivity, without acceptable justification, (iii) the institution is not located at the address that was provided to the Central Bank, (iv) failure to provide the financial statements required by the regulations to the Central Bank for over four months without acceptable justification, and/or (v) failure to observe the agreed business plan. The cancellation of a banking license may only occur after the appropriate administrative proceedings are carried out by the Central Bank.

Anti-Money Laundering Regulations and Banking Secrecy in Brazil

Pursuant to Circular 3,461 enacted by the Central Bank on July 24, 2009, as amended, which consolidated and improved Brazilian anti-money laundering legislation, financial institutions (including their branches and subsidiaries abroad) are required to: (i) keep up-to-date records regarding their customers (including statements of purpose and nature of transactions and the verification of characterization of customers as politically-exposed individuals); (ii) adopt preventive policies and internal procedures; (iii) record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money, including specific registries for issuance or recharging of prepaid cards; (iv) maintain records of transactions carried out by individuals or entities belonging to the same group of companies in an amount that exceeds R$10,000 in a calendar month or reveals a pattern of activity that may suggest a scheme to avoid identification; (v) review transactions or proposals that may indicate criminal activity; (vi) maintain records of every transfer of funds related to (a) deposits, wire transfers, and checks, among others and (b) issuances of checks and order of payments, among others, in amounts that exceed R$1,000; and (vii) notify the relevant authority of any transaction that may be considered suspicious by the financial institution.

The financial institutions must inform the Central Bank (without notifying the customer) of any transactions of the type referred to under (iii) and (iv) above that exceed R$100,000. Notwithstanding, the financial institutions must review transactions that have characteristics which may indicate the existence of a crime and inform the Central Bank within one business day of the proposed or executed transaction, in accordance with Law No. 9,613 enacted on March 3, 1998, as amended. The records referred to above must be maintained for at least five years or ten years, depending on the nature of the information, from the end of the relationship with the customer. Failure to comply with any of the obligations indicated above may subject the financial institution and its officers and directors to fines and penalties that vary in amount (between 1.0% and 100.0% of the transaction amount or 200.0% over any profit generated or over the transaction amount) and which could lead to officers and directors to be considered ineligible to exercise any position at a financial institution and/or the cancellation of the financial institution's operating license.

Government and auditors from the Brazilian Internal Revenue Service may also inspect an institution's documents, books and financial registry in certain circumstances. On March 3, 1998, the Brazilian government created the Council of Control of Financial Activities (*Conselho de Controle de Atividades Financeiras*), or COAF, which operates under the Ministry of Finance. The purpose of the COAF is to investigate, examine, identify and impose administrative penalties in respect of any suspicious or unlawful activities related to money laundering in Brazil. The COAF is comprised of a president appointed by the Ministry of Finance and eleven members of the council, one of whom is appointed by each of the following entities: (i) the Central Bank; (ii) the CVM; (iii) the Ministry of Foreign Affairs; (iv) the SUSEP; (v) the Federal Revenue Service (*Secretaria da Receita Federal*); (vi) the Office of the Attorney-General of the Brazilian National Treasury; (vii) the Federal Police Department; (viii) the Federal Intelligence Agency; (ix) the Ministry of Justice; (x) the Ministry of Social Security; and (xi) Federal General Controller (*Controladoria Geral da União*). The term of office of each of the president and the other members of the council is three years.

On March 12, 2012, the Central Bank amended the rules applicable to procedures that must be adopted by financial institutions in the prevention and combat of money laundering and terrorism financing, as a response to the recommendations of the Financial Action Task Force. The main measures include: (i) enactment of Circular No. 3,583, which sets forth that (a) financial institutions must not initiate any relationship with clients or proceed with existing relationships, if it is not possible to fully identify such clients and (b) anti-money laundering procedures are also applicable to agencies and subsidiaries of Brazilian financial institutions located abroad; (ii) enactment of Circular No. 3,584, establishing that the institutions authorized to operate in the Brazilian foreign exchange market with financial institutions located abroad must verify if the other party is physically present in the country where it was organized and licensed or is effectively supervised; and (iii) enactment of Letter Circular No. 3,542, which increases the list of examples of transactions and situations which may characterize evidence of occurrence of money laundering, tending to improve the communication between financial institutions and the COAF.

Brazilian financial institutions are also subject to strict bank confidentiality regulations and must maintain the secrecy of their banking operations and services provided to their customers. The only circumstances in which information about customers, services or transactions of Brazilian financial institutions or credit card companies may be disclosed to third parties are the following: (i) express consent of the interested parties; (ii) the exchange of information between financial institutions for record purposes; (iii) the supply to credit reference agencies of information based on data from the records of issuers of bank checks drawn on accounts without sufficient funds and defaulting debtors; and (iv) as to the occurrence or suspicion that criminal or administrative illegal acts have been performed, in which case the financial institutions and the credit card companies may provide the competent authorities with information relating to such criminal acts when necessary for the investigation of such acts. Complementary Law No. 105/01 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, *provided* that a specific treaty in that respect may have been previously executed.

Politically Exposed Individuals in Brazil

Pursuant to Circular No. 3,461, issued by the Central Bank on July 24, 2009, as amended, financial institutions (including their branches and subsidiaries abroad) and other institutions authorized to operate by the Central Bank are required to take certain actions to establish business relationships with, and to follow-up on, financial transactions of customers who are deemed so-called “politically exposed individuals.”

For purposes of this regulation, politically exposed individuals are public agents and their immediate family members, spouses, life partners and step-children who occupy or have occupied a relevant public office or position over the past five years in Brazil or other countries, territories and foreign jurisdictions.

Circular No. 3,461 provides that the internal procedures developed and implemented by such financial institutions must be structured in such a way as to enable the identification of politically exposed individuals, as well as the origin of the funds involved in the transactions of such customers.

Auditing Requirements

We are required under the rules set forth by the Central Bank to prepare financial statements in accordance with the rules and accounting guidelines from the Central Bank (which are also part of Brazilian GAAP). As a financial institution, we are required by the Central Bank to (i) present annual and semi-annual audited financial statements; and (ii) file quarterly financial information with the Central Bank, with a specific review report prepared by independent auditors.

Under CMN Resolution No. 3,786 enacted on September 24, 2009, as from December 31, 2010, we are required to present, in addition to the statutory annual financial statements prepared under the accounting guidelines from the Central Bank, annual consolidated financial statements prepared in accordance with IFRS, and accompanied by an independent audit report confirming that the financial statements have been so prepared.

Independent Auditors in Brazil

On May 27, 2004, the CMN issued Resolution No. 3,198, which regulates the rendering of independent auditors’ services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as clearing houses and clearing and custody service providers. According to CMN Resolution No. 3,198, financial institutions (except for microcredit loan societies) must be audited by independent auditors. Financial institutions may only engage independent auditors that are duly registered with the CVM and certified as specialists in banking analysis by the Central Bank. The Central Bank has recently amended previous rules it had established regarding the independence of auditors, and its current rules require a rotation for a period of at least five consecutive years for the partner in charge, manager, supervisor or any other members of the independent audit team who have had a managerial level role in the auditing work of a financial institution. Additional requirements imposed by the Central Bank relating to the work performed by independent auditors for a financial institution in Brazil, include the following:

- review during the execution of audit procedures, to the extent deemed necessary, the financial institution’s internal controls and procedures, including in relation to its electronic data processing system, and identify any potential failings; and

- report on the financial institution’s non-compliance with any applicable regulation to the extent it is material to its financial statements or activities.

Independent auditors and the fiscal council, when established, must notify the Central Bank of the existence or evidence of error or fraud within three business days of the identification of such error or fraud, including:

- non-compliance with rules and regulations that place the continuity of the audited entity at risk;

- fraud of any amount perpetrated by the management of the institution;

- material fraud perpetrated by the institution's employees or third parties; and

- material errors in the accounting records of the audited entity.

Audit Committee

CMN Resolution No. 3,198, as amended, requires financial institutions and certain other entities holding a reference net worth equal to or greater than R$1.0 billion to establish a corporate body designated as an "audit committee," which must be composed of at least three individual members, with a maximum term of office of five years each for publicly held companies. At least one of the members of the audit committee must have specific accounting and financial knowledge. The institution's fiscal council may perform the duties of the audit committee, provided it operates on a permanent basis, subject to the provisions of Resolution No. 3,198.

In addition, Brazilian legislation also permits the creation of a single committee for an entire group of companies. In this case, the audit committee or the fiscal council, as the case may be, should be responsible for any and all financial institutions comprising the same group, *provided* that these financial institutions comply with the requirements mentioned above.

Ombudsman Office

CMN Resolution No. 3,849, of March 25, 2010, or Resolution No. 3,849, establishes that financial institutions and other entities authorized to operate by the Central Bank (in the latter case, to the extent they have micro-enterprises as clients) are required to create an ombudsman office, or Ombudsman Office, independent from internal audit, and compatible with the nature and complexity of their products, services, activities, processes and systems. The Ombudsman Office needs to meet the requirements set forth in Resolution No. 3,849, taking into account efficiency in responding to clients' complaints and opinions, internal handling of deficiencies identified in operating processes, staff training, semi-annual reporting to the Central Bank, and adding value to the Bank's business and internal control through appropriate reporting to senior management on the nature of these demands.

Pursuant to Resolution No. 3,849, the by-laws of financial institutions shall provide for: (a) the duties of the Ombudsman Office; (b) criteria for the election and the removal of the ombudsman, as well as its term of office; and (c) the express commitment of the financial institution to create conditions to permit the Ombudsman Office to operate transparently, independently, impartially and objectively, and ensure the Ombudsman Office's access to information to prepare replies to the complaints received.

Resolution No. 3,849 sets forth that financial institutions are required to appoint an ombudsman and an officer responsible for the Ombudsman Office before the Central Bank, *provided* that the following requirements are met:

- the officer responsible for the Ombudsman Office is authorized to hold another position at the financial institution, except for the position as officer responsible for managing third party funds;

- in case of full-service banks, commercial banks, savings and loans banks and credit, financing and investment companies, the ombudsman cannot hold any other position in the financial institution, except for the position as officer responsible for the Ombudsman Office;

- if the same person is appointed to both the ombudsman and the Ombudsman Office's officer positions, such person is prohibited from holding any other position in such financial institution; and

- the information data about the officer responsible for the Ombudsman Office and the ombudsman must be inserted and updated into the information system designated by the Central Bank.

Foreign Investment in Brazilian Financial Institutions

The Constitution of Brazil permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the President of Brazil based on national interest or reciprocity. In addition, foreign investors may acquire publicly traded non-voting shares of Brazilian financial institutions traded on a stock exchange without specific authorization.

Regulation of Branches and Subsidiaries

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended by CMN Resolution No. 4,062 of May 29, 2012, the Central Bank requires authorization for operations of foreign branches or subsidiaries of Brazilian financial institutions, including compliance with the following: (i) the institution must have been in operation for at least six years; (ii) the institution must be in compliance with operational limits currently in force; (iii) the institution's paid-up capital and net worth must meet the minimum levels established in Exhibit II to CMN Resolution No. 2,099, of August 17, 1994, as amended, plus an amount corresponding to 300.0% of the minimum paid-up capital and net worth required by Central Bank regulations for the installation of commercial banks; and (iv) the Brazilian financial institution must present to the Central Bank a study on the economic and financial viability of the subsidiary, branch or investment.

In addition, the Central Bank will only grant such authorization if it has access to information, data and documents relating to the operations and accounting records of the financial institution in which it has a direct or indirect holding abroad. Any delays in providing the Central Bank with the required information and documents will subject the relevant financial institution to fines. Furthermore, the failure by a Brazilian bank to comply with the requirements of CMN Resolution No. 2,723 would imply the deduction of a designated percentage of the assets of such branch or subsidiary from the net worth of such bank for the purpose of calculating such bank's compliance with the capital adequacy requirements of the Central Bank, regardless of other penalties applied pursuant to the applicable regulation, including the cancellation of the authorization of the Central Bank.

The Central Bank's prior authorization is also required: (i) in order to allocate new funds to branches or subsidiaries abroad; (ii) for capital increases, directly or indirectly, of subsidiaries abroad; (iii) in order to increase equity interests, directly or indirectly, in subsidiaries abroad; and/or (iv) in order to merge with or spin-off from, directly or indirectly, subsidiaries abroad. These requirements are only applicable if such subsidiary is a financial institution or similar entity.

Equity Participations by Financial Institutions

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended by CMN Resolution No. 4,062, of May 29, 2012, financial institutions may only directly or indirectly hold equity in legal entities (incorporated locally or abroad) that supplement or subsidize the financial institutions' activities, provided they obtain prior authorization from the Central Bank and that the other entity does not hold equity of the financial institution. However this requirement for authorization does not apply to (i) equity interests typically held in the investment portfolios of investment banks, development banks, development agencies (*agências de fomento*) and multiservice banks with investment or development portfolios; and (ii) temporary equity interests not registered as permanent assets of the financial institution.

Asset Management Regulation

Asset management was previously regulated by the Central Bank and the CVM. Pursuant to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303 of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds, as well as transactions involving derivatives, were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. The asset management industry is also self-regulated by ANBIMA (*Associação Brasileira das Entidades dos*

Mercados Financeiro e de Capitais), which enacts additional rules and policies, especially with respect to marketing and advertising.

According to CVM Instruction No. 306, of May 5, 1999, as amended, individuals or entities authorized by the CVM may act as managers of third party assets. Financial institutions must segregate the management of third party assets from their other activities. These institutions must appoint an officer as the agent responsible for the management and supervision of such assets.

The Central Bank, except in very specific circumstances, has prohibited institutions that manage third party assets and their affiliated companies from investing in fixed rate income funds that they also manage. The CVM allows investments in equity funds. There are specific rules regarding mutual fund portfolio diversification and composition, which aim to reduce exposure to certain types of risk.

The Central Bank issued Circular No. 3,086 of February 15, 2002, as amended, which establishes criteria for the registration and accounting evaluation of titles, securities and financial instruments, derivatives that form financial investment funds, application funds in quotas at investment funds, individual programmed retirement funds and offshore investment funds. By this Circular, the Central Bank ordered fund managers to mark their fixed-income securities to market; hence, the fund's portfolio assets must be accounted for at their fair market value, instead of their expected yield to maturity. As a result of this mark-to-market mechanism, the fund quotas reflect the fund's net asset value.

On August 18, 2004, the CVM enacted Instruction No. 409, as amended, which consolidated the rules applicable to investment funds (except for structured investment funds, which are regulated by specific rules).

Regulation in the Cayman Islands

Banks and trust companies in the Cayman Islands must be licensed under the Banks and Trust Companies Law (2009 Revision). Licenses are granted by the Cayman Islands Monetary Authority. It is government policy that bank licenses should only be granted to applicants with an established track record in the banking or finance industry and that a branch or a new entity is or will be a member of a group with acceptable home-base supervising regulation.

Under the Banks and Trust Companies Law (2009 Revision) there are two basic categories of banking license: an "A" license, which permits unrestricted domestic and off-shore business, and a "B" license, which permits only off-shore business. According to the Cayman Islands Monetary Authority's website, currently there are 15 banks holding "A" licenses and 218 banks holding "B" licenses. The holder of a "B" license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do business locally with the public or residents in the Cayman Islands.

Branches of foreign banks operating in the Cayman Islands, such as Banco BTG Pactual S.A., must maintain the minimum capital adequacy requirements as stipulated by their home jurisdictions. All other bank license holders are required to comply with the Cayman Islands Monetary Authority's implementation of the Basel II Framework for capital adequacy requirements.

Regulation in the United Kingdom

One of our operating entities, BTG Pactual Europe LLP, or BTG Pactual Europe, is authorized by the FSA to provide investment services in the United Kingdom. As an FSA authorized investment advisor, BTG Pactual Europe's operations are subject to the supervision of the FSA, and BTG Pactual Europe is required to comply with the rules issued by the FSA regarding its operations. The FSA rules require BTG Pactual Europe to meet the standard set for different areas of its operations. The FSA rules are concerned with, among other matters, the following items:

- satisfying at all times the threshold conditions for authorization;
- having adequate senior management arrangements, systems and controls which includes operational, market, counterparty and other risk assessment;
- regulatory capital requirements;
- conduct of business requirements, including the fair treatment of customers and the suitability of investment decisions made for client portfolios;
- training and qualifications of employees and management;
- complaints handling processes;
- internal systems and controls with regard to market abuse and insider dealing; and
- executive remuneration.

BTG Pactual Europe must also, in undertaking its business and operations, act in accordance with the FSA's Statements of Principle for Businesses, or the Principles. Pursuant to these Principles, BTG Pactual Europe is required to:

- conduct its business with integrity and with due skill, care and diligence;
- take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems;
- maintain adequate financial resources;
- observe proper standards of market conduct;
- pay due regard to the interests of its customers and treat them fairly;
- pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;
- manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;
- take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment;
- arrange adequate protection for clients' assets when it is responsible for them; and
- deal with its regulators in an open and cooperative way, and disclose to the FSA appropriately anything relating to BTG Pactual Europe of which the FSA would reasonably expect notice.

Regulation in the United States

The securities industry is subject to extensive regulation under U.S. federal and state laws. Accordingly, we and certain of our U.S. subsidiaries are subject to regulation, including periodic examination, primarily at the federal level, by the SEC and FINRA, a self-regulatory organization, and other government agencies and regulatory bodies.

Our subsidiary, BTG Pactual Asset Management US, LLC, is registered as an investment adviser with the SEC and is subject to various laws and regulations that are primarily intended to protect investment advisory clients. The Investment Advisers Act of 1940, as amended, or the Advisers Act, imposes numerous obligations on investment advisers, including record-keeping, operational and marketing requirements, disclosure obligations, and prohibitions on fraudulent activities. Investment advisers are also subject to certain state securities laws and regulations. FINRA itself is subject to oversight by the SEC.

Our subsidiary, BTG Pactual US Capital, LLC, is registered as a broker-dealer with the SEC and is a member of FINRA. Our broker-dealer has a membership agreement with FINRA that limits the scope of its permitted activities, and our broker-dealer is required to comply with various laws and regulations. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of FINRA, BTG Pactual US Capital, LLC is subject to the SEC's uniform net capital rule, Rule 15c3-1 under the Exchange Act. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. Our broker-dealer is required to maintain minimum net capital of US$100,000. Broker-dealers are also subject to certain state securities laws and regulations.

In addition, U.S. Congress, regulators, and others continue to consider increased regulation of the securities industry and, in particular, the private investment fund industry, including placing limits on certain trading activities, increasing trading costs and requiring greater reporting requirements. It is difficult to predict how changes in regulations might affect us, the markets in which we trade and invest, and the counterparties with which we do business. We may be materially and adversely affected by new legislation, rule-making, or other changes in the interpretation of enforcement of existing rules and regulations by various regulators.

Non-compliance with federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines, damage to our reputation and termination of our investment adviser's or our broker-dealer's authorization to conduct its business.

DESCRIPTION OF THE NOTES

The following summary describes the material provisions of the Notes and the Indenture. It does not include all of the provisions of the Indenture. We urge you to read each of the Indenture and the form of the Notes because they define your rights as holders of the Notes. The Indenture is incorporated into this Offering Memorandum by reference. Copies of the Indenture and forms of Notes may be obtained by Noteholders upon request to the Trustee or the paying agents without the consent of the Issuer at the addresses set forth on the back cover page of this Offering Memorandum. You can find the definitions of certain terms used in this description under "—Certain Definitions" or in the Indenture governing the Notes.

For purposes of this "Description of the Notes," the term "Issuer" means Banco BTG Pactual S.A., acting through its Cayman Islands branch, and its successors under the Indenture, excluding its subsidiaries.

General

The Issuer issued, through its Cayman Islands branch, U.S.$800 million of 5.75% Subordinated Notes due September 28, 2022 (the "Notes"), under an indenture dated as of September 28, 2012 (the "Indenture"), among the Issuer, Deutsche Bank Trust Company Americas, as trustee, registrar, paying agent and transfer agent (the "Trustee"), and Deutsche Bank Luxembourg S.A., as Luxembourg transfer agent and paying agent.

The Notes have the following basic terms:

- The Notes issued in this offering have an initial aggregate principal amount of U.S.$800,000,000. The principal amount of the Notes will be payable in full at par in a single payment on September 28, 2022, (the "Maturity Date"), unless the payment is deferred as described in "—Deferral of Principal, Interest and Other Amounts" below.

- The Notes bear interest at a fixed rate of 5.75% per annum (the "Note Rate"), from September 28, 2012, except that interest on unpaid principal, interest or other amounts due on the Notes will accrue interest at the Note Rate plus 1% per annum from the date on which the payment of such amounts was due (unless such unpaid amounts are deferred as described in "—Deferral of Principal, Interest and Other Amounts" below). Interest on the Notes will be paid semi-annually in arrears on March 28 and September 28 of each year (each, an "Interest Payment Date"), commencing on March 28, 2013, to the Noteholders registered as such as of the close of business in New York on the Business Day preceding the Interest Payment Date, except that any default interest that is paid more than 15 days after the applicable Interest Payment Date will be paid to the Noteholders registered as such on a special record date fixed by the Issuer. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

- The Notes were initially issued in the form of one fully registered Restricted Global Notes and two Regulation S Global Notes. The Notes were issued only in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. For more information about the form of the Notes and their clearance and settlement, see "Form of the Notes."

- Neither the Issuer nor any legal entity related to the Issuer within the same financial conglomerate or economic/financial group (as defined by applicable Brazilian laws and Central Bank regulations) have entered, and none of them will enter, into any agreement that provides for any guarantee of, or insurance with respect to, the Notes affecting the subordination of the Notes in accordance with CMN Resolution No. 3,444.

Additional Notes

The Indenture will provide that, from time to time, without notice to or the consent of the Noteholders, additional notes ("Additional Notes") may be issued upon satisfaction of the conditions set forth in the Indenture. Any Additional Notes may be issued on terms established pursuant to a resolution of the Issuer's Board of Directors, which will also establish the aggregate principal amount of any Additional Notes delivered to the Trustee, or pursuant to a supplemental indenture. Any Additional Notes will have the same terms in all respects as the Notes except that the Additional Notes may have a different issue date, issue price and, if applicable, the first payment date; provided, however, that unless such Notes are issued under a separate CUSIP, either such Additional Notes are part of the same "issue" within the meaning of United States Treasury Regulation Section 1.1275-1(f) or neither the Notes nor such Additional Notes are issued with original issue discount for U.S. federal income tax purposes. Any Additional Notes will have the same Common Codes and ISIN Codes (unless otherwise bearing temporary Common Codes and ISIN Codes) as the Notes offered hereby and will be treated as a single series for all purposes under the Indenture and will vote together as one class on all matters with respect to the Notes. For purposes of this "Description of the Notes," references to the Notes include Additional Notes, if any.

Deferral of Principal, Interest and Other Amounts

If (1) on any Interest Payment Date, Maturity Date or Redemption Date (each a "Payment Date"), the Issuer is not in compliance with the operational limits required by regulations applicable to Brazilian banks, now existing or hereafter promulgated or enacted by Brazilian banking or monetary authorities (the "Risk-Based Capital Requirements"), or (2) any payment of principal, interest or any other amount due on the Notes would cause the Issuer to fail to be in compliance with any of the Risk-Based Capital Requirements; on any Payment Date, such payment of principal, interest or any other amount due on the Notes, as the case may be, will not be due at that time and the Issuer shall defer that payment of principal, interest or any other amount relating thereto in full until the date no later than 14 days after the first date the Issuer becomes aware pursuant to its financial statements filed with the Central Bank that it is in compliance with the Risk-Based Capital Requirements and (i) such payment of principal, interest or other amount due on the Notes, or any portion thereof, would no longer cause the Issuer to be in violation of the Risk-Based Capital Requirements (unless on such date the Issuer is again not in compliance, or such payment would result in it not being in compliance, with the Risk-Based Capital Requirements) and (ii) such payment of principal, interest or other amount due on the Notes is authorized (to the extent that such authorization is required) by the Central Bank or any other applicable Brazilian Governmental Authority. The deferral of any payment in accordance with this provision will not constitute an Event of Default under the Notes. See "Risk Factors—Risks Relating to the Notes—Payments to be made by us under the Notes may be suspended if we are not in compliance with operational limits required by regulations applicable to Brazilian Banks."

Any amount payable on the Notes not paid on a Payment Date, as the case may be, as a result of a deferral as described in "—Deferral of Principal, Interest and Other Amounts" constitute an "Amount in Arrears."

The Issuer will promptly, upon determining that it will defer a payment due on the Notes, and in any event, not to exceed five Business Days prior thereof, deliver a certificate to the Trustee (1) representing either that (i) the Issuer is not in compliance with the Risk-Based Capital Requirements or (ii) that the payment of any amounts due on the Notes would cause the Issuer to fail to be in compliance with any of the Risk-Based Capital Requirements, as the case may be, and (2) a detailed statement of facts giving rise to such deferral. The Issuer will give prompt notice to the Noteholders of any principal, interest or other payment that will be deferred.

Within 14 days after the first date the Issuer becomes aware pursuant to its financial statements filed with the Central Bank that it is in compliance with the Risk-Based Capital Requirements and (1) that the payment of the full or partial Amount in Arrears (as defined below) or Additional Interest Amount (as defined below), as the case may be, would not cause the Issuer to fail to be in compliance with the Risk-Based Capital Requirements and (2) such payment is permitted by the Central Bank or any other applicable Brazilian Governmental Authority (to the extent that such authorization is required), the Issuer will make such payment to the Trustee or paying agent. In the event the above-mentioned requirements are met, the Issuer will give prompt notice, and in any event not to exceed three Business Days thereof, to the Noteholders of any date on which any Amount in Arrears or any Additional Interest Amount will be payable and the amounts payable on such date.

All Amounts in Arrears will bear interest at the Note Rate plus 1.0% per annum (the "Arrears Rate").

Any deferred interest amounts will be calculated by the Issuer on each Interest Payment Date only for the purpose of calculating the interest accruing thereafter on Amounts in Arrears. The Additional Interest Amount accrued up to any Interest Payment Date will be added, for the purpose only of calculating the Additional Interest

Amount accruing thereafter, to the Amount in Arrears remaining unpaid on such Interest Payment Date so that it will itself become an Amount in Arrears.

If the Amounts in Arrears are at any time only partially payable:

- all Amounts in Arrears will be payable before any Additional Interest Amounts on such Amount in Arrears;

- all Amounts in Arrears will be payable in the order of the interest periods for which they accrued, and the payment of Additional Interest Amounts on such Amounts in Arrears will follow the same order; and

- all Amounts in Arrears or Additional Interest Amounts on such Amount in Arrears, as the case may be, for any Interest Period will be paid pro rata among the Notes.

Ranking

The Notes will be the Issuer's direct, unsecured obligations, and, in the event of the Issuer's bankruptcy, liquidation or dissolution under Brazilian law (each, a "bankruptcy event"), will be subordinated obligations ranking:

- junior in right of payment to the payment of all the Issuer's Senior Indebtedness;

- *pari passu* among (i) themselves and (ii) with any Liabilities approved or to be approved by the Central Bank and to be classified, in whole or in part, as Tier 1 Capital or Tier 2 Capital pursuant to CMN Resolution No. 3,444 (the "Pari Passu Liabilities");

- senior to the capital stock of the Issuer ("Junior Liabilities"). See "Risk Factors—Risks Relating to the Notes—Our obligations under the Notes will be subordinated to our senior liabilities, and to some Brazilian statutory obligations."

As of June 30, 2012 without giving effect to this offering, the Issuer's Senior Indebtedness and the Issuer's Pari Passu Liabilities totaled R$103.9 billion and R$4.5 billion, respectively.

A consolidation of the Issuer with, or the merger of the Issuer into, another person, or the liquidation or dissolution of the Issuer after the conveyance or transfer of all or substantially all of its assets and Liabilities (including the Notes issued under the Indenture) to another person, as described and in accordance with the provisions under "—Certain Covenants—Consolidation, Merger, Conveyance or Transfer" will not be deemed a bankruptcy event for the purposes of the subordination provisions if that person complies with the conditions described under "—Certain Covenants—Consolidation, Merger, Conveyance or Transfer."

In the event of a bankruptcy event, all principal, premium, if any, and interest or other amounts due or to become due on all Senior Indebtedness will be paid in full before the Noteholders are entitled to receive any payment. The Noteholders will be entitled to receive payment pari passu among themselves and with other Pari Passu Liabilities.

If, in the event of any bankruptcy event, the Trustee or any Noteholder receives any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities, before the Senior Indebtedness is paid in full, that payment or distribution must be paid over or delivered to the Trustee in bankruptcy or other person making payment or distribution of assets of the Issuer for application to the payment of all the Senior Indebtedness until all Senior Indebtedness is paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness.

The terms and conditions of the Notes do not limit the amount of Senior Indebtedness and Pari Passu Liabilities that the Issuer may hereafter incur.

Conflicts with CMN Resolution No. 3,444

Pursuant to article 7, paragraph 1 of CMN Resolution No. 3,444, any provision of this Description of the Notes, this Offering Memorandum, the Indenture, the Notes or the Purchase Agreement among the Issuer and the Initial Purchasers that conflicts with any of the provisions of the Terms of Subordination (*núcleo de subordinação*) that sets out the subordination terms and conditions of the Notes, and is a part of the Indenture governing the Notes, will be null and void.

Payment of Principal, Interest and Other Amounts

Payment of the principal, interest and other amounts due on the Notes, will be made on the relevant Payment Date, to the person in whose name the Note is registered as of the close of business, New York time, on the day before such Payment Date. Payments in respect of Global Notes will be paid by wire transfer of immediately available funds to DTC, and payments in respect of certificated Notes will be paid by a U.S. dollar check drawn on, or, if requested by a Noteholder of at least U.S.$1.0 million in principal amount of the Notes, by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

In the event that any Payment Date is not a Payment Business Day, then payment of the principal, interest or other amounts payable on such Payment Date will be made on the next succeeding day that is a Payment Business Day (and without any interest or other payment in respect of any such delay).

Additional Amounts

The Issuer will make all payments of principal, interest and other amounts due on the Notes, without withholding or deducting any present or future taxes, penalties, fines, duties, assessments or other governmental charges of any nature (collectively, "taxes") imposed by Brazil or the Cayman Islands or by the jurisdiction of any successor to the Issuer in the event of a consolidation, merger, transfer or conveyance, or in the event that the Issuer appoints additional paying agents, by the jurisdictions of any additional paying agents, or, in each case, any political subdivision or governmental authority of those jurisdictions having power to tax (each, a "Taxing Jurisdiction") unless such withholding or deduction is required by law. If the Issuer is required by law to withhold or deduct any such taxes, except as provided below, the Issuer will pay the Noteholders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction ("Additional Amounts"). The Issuer will not, however, pay any Additional Amounts in connection with any taxes imposed due to any of the following:

- the Noteholder or beneficial owner has some connection with the Taxing Jurisdiction other than merely holding the Notes, receiving principal or interest payments on the Notes or enforcement of rights with respect to the Notes (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing Jurisdiction);

- any tax that is payable otherwise than by withholding from payment of principal or interest on a Note;

- the Noteholder or beneficial owner fails to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the Taxing Jurisdiction, if (1) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the taxes, (2) the Noteholder or beneficial owner is able to comply with those requirements without undue hardship and (3) the Issuer has given all Noteholders at least 30 days' prior notice that they will be required to comply with such requirements;

- the Noteholder fails to surrender (where surrender is required) its Note within 30 days after the Issuer has made available to the Noteholder a payment of principal or interest; provided that the Issuer will pay Additional Amounts to which a Noteholder would have been entitled had the Note owned by such Noteholder been surrendered on any day (including the last day) within such 30-day period;

- any estate, inheritance, gift, value added, use or sales taxes or any similar taxes, assessments or other governmental charges;

- where any such withholding or deduction is imposed on a payment on the Notes to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this directive;

- where the Noteholder or beneficial owner could avoid withholding or deduction by requesting that a payment on the Notes be made by, or presenting the relevant Notes for payment to, another paying agent; or

- any combination of the foregoing.

The Issuer will make any required withholding or deduction and remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law. The Issuer will furnish to the Trustee, within 30 days after the date of payment of any such taxes, certified copies of tax receipts or other documentation reasonably satisfactory to the Trustee evidencing that payment. Upon request, copies of those receipts or other documentation, as the case may be, will be made available to the Noteholders.

The Issuer will pay any stamp, administrative, court, documentary, excise or property taxes arising in a Taxing Jurisdiction in connection with the Notes.

The obligations to make payments of Additional Amounts with respect to principal, interest or other amounts payable on the Notes will survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Issuer is required at any time to pay Additional Amounts to Noteholders pursuant to the terms of the Indenture and the Notes, the Issuer will use reasonable efforts to obtain an exemption from the payment of (or otherwise avoid the obligation to pay) the taxes which have resulted in the requirement that the Issuer pay Additional Amounts.

The Issuer will appoint and maintain a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax in respect of payments on the Notes pursuant to Council Directive 003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive or the conclusions of the ECOFIN Council meeting of November 26-27, 2000 (so long as there is such a member state).

Listing

The Issuer has made an application to list the Notes on the Official List of the Luxembourg Stock Exchange and it has made an application for admission to trading on the Euro MTF.

Certain Covenants

For so long as any of the Notes are outstanding and any amount remains unpaid under the Indenture and the Notes, the Issuer will comply with the terms of the covenants described below, among others:

Performance of Obligations Under the Notes and the Indenture

The Issuer will pay all amounts owed by it under the terms of the Notes and the Indenture. If the Issuer defers any interest or principal payment or other amount as described under "—Deferral of Principal, Interest and Other Amounts," it will use reasonable efforts to reenter into compliance with the Risk-Based Capital Requirements within 180 days of the date that it deferred any interest or principal payment or other amount.

Maintenance of Approvals

The Issuer will obtain and maintain in full force and effect all governmental approvals, consents or licenses of any governmental authority under the laws of the Cayman Islands, Brazil or any other jurisdiction having jurisdiction over it, its business or the transactions contemplated herein, as well as of any third party under any agreement to which the Issuer may be subject, in connection with its execution, delivery and performance of the Transaction Documents or validity or enforceability thereof.

Maintenance of Books and Records

The Issuer will maintain books, accounts and records as may be necessary to comply with all applicable laws and to enable its financial statements to be prepared and it will allow the Trustee access to those books, accounts and records at reasonable times.

Maintenance of Office or Agency

The Issuer will maintain an office or agency in the Borough of Manhattan, The City of New York where Notes may be presented for payment or for exchange, transfer or redemption and where notices to and demands upon the Issuer in respect of the Indenture and the Notes may be served. Initially this office will be the office of the Trustee located at 60 Wall Street, 27th Floor, New York, N.Y. 10005, and the Issuer will agree not to change the designation of such office without prior notice to the holders and designation of a replacement office.

Qualification as Tier 2 Capital

Subject to the approval of the Central Bank, we expect to initially qualify a majority of the Notes as Tier 2 Capital. See "Use of Proceeds."

Notice of Certain Events

If the Issuer has deferred interest or principal payments as described under "—Deferral of Principal, Interest and Other Amounts," it will give notice to the Trustee no later than 14 days after the first date the Issuer becomes aware pursuant to its financial statements filed with the Central Bank that it is in compliance with the Risk-Based Capital Requirement.

If the Trustee has actual knowledge of an Event of Default or an event that, with the giving of notice, lapse of time or other conditions, would become an Event of Default, the Trustee will give notice of that event to the Noteholders within 30 days after it is actually known to the Trustee. The Trustee may withhold notice to the Noteholders of such an event (except the non-payment of principal and interest) if its board of directors or a committee of its trust officers determines in good faith that withholding notice is in the interests of the Noteholders.

Within 60 days after the end of each fiscal quarter of each fiscal year (other than the final fiscal quarter of each fiscal year) and 90 days after the end of each fiscal year of the Issuer, the Issuer will provide to the Trustee copies of unaudited (with respect to a fiscal quarter and a fiscal semester) or audited (with respect to a fiscal year) consolidated financial statements in English, accompanied by an report from an independent auditor; provided that (1) at the exclusive discretion of the Issuer, all such financial statements and reports may be provided in the forms included in this Offering Memorandum or such other form as is then required by applicable Brazilian authorities, including the Central Bank and the CVM for financial institutions such as us and (2) any such financial statements will be deemed to have been delivered on the date on which the Issuer has posted such financial statements on its website at www.btgpactual.com (it being understood that the Issuer will promptly provide copies to the Trustee and provide such other information as the Trustee may reasonably request and that the Issuer may provide without violating any applicable law).

The Issuer will provide, together with each of the financial statements described above, a compliance certificate stating that it has fulfilled its agreements under the Indenture and that no Event of Default or event that, with the giving of notice, lapse of time or other conditions, would become an Event of Default has occurred during that period or, if one or more have actually occurred, specifying those events and what actions have been taken and will be taken with respect to each such event.

Delivery of such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any other covenants hereunder (as to which the Trustee is entitled to conclusively rely on an Officer's Certificate).

Available Information

The Issuer will take all action necessary to provide information to permit resales of the Notes pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended, including furnishing to any Noteholder or beneficial interest in a Global Note, or to any prospective purchaser designated by such Noteholder, upon request of such Noteholder, financial and other information required to be delivered under Rule 144A(d)(4) (as amended from time to time and including any successor provision) unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") or is exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act (as amended from time to time and including any successor provision).

Further Actions

The Issuer will, at its own cost and expense, take any action at any time required, as necessary or as requested by the Trustee, in accordance with applicable laws and regulations, to be taken in order:

- to enable it to lawfully to enter into, exercise its rights and perform its obligations under the Notes and the Indenture;
- to ensure that its obligations under the Notes and the Indenture are legally binding and enforceable;
- to make the Notes and the Indenture admissible in evidence in the courts of the State of New York, Brazil or the Cayman Islands;
- to enable the Trustee to exercise and enforce its rights under and carry out the terms, provisions and purposes of the Indenture and the Notes;
- to take any and all actions necessary to preserve the enforceability of, and maintain the Trustee's rights under, the Indenture and the Notes; and
- to assist the Trustee, to the extent reasonably practicable, in the Trustee's performance of its obligations under the Notes and the Indenture.

Appointment to Fill a Vacancy in the Office of the Trustee

Whenever necessary to avoid or fill a vacancy in the office of the Trustee, the Issuer will appoint a successor Trustee so that there will at all times be a Trustee with respect to the Notes.

Maintenance of Existence

Subject to the covenant described in "—Consolidation, Merger, Conveyance or Transfer," the Issuer will do all things necessary to preserve and keep in full force and effect its corporate existence and rights; provided, however, that the Issuer will not be required to preserve any such right if its Board of Directors determines that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Noteholders.

Consolidation, Merger, Conveyance or Transfer

The Issuer will not, without the consent of Noteholders holding no less than 66⅔% in aggregate principal amount of the Notes outstanding, consolidate with or merge into any other person or convey or transfer all or substantially all of its properties and assets or all or substantially all of its properties, assets and Liabilities (including the Notes issued under the Indenture) to any other person unless thereafter:

- the person formed by such consolidation or into which the Issuer is merged (if other than the Issuer), or the person which acquires all or substantially all of the Issuer's properties and assets or all or substantially all of the Issuer's properties, assets and Liabilities (including the Notes issued under the Indenture), is an entity formed under the laws of the Federative Republic of Brazil or any political subdivision thereof which expressly assumes the due and punctual payment of the principal of and interest on all the Notes and the performance or observance of every covenant of the Indenture and the Notes on the part of the Issuer to be performed or observed;

- immediately after giving effect to such transaction, no Event of Default or event that, with the giving of notice, lapse of time or other conditions, would become an Event of Default, has occurred and is continuing and no covenant or agreement in the Indenture and the Notes has been materially breached; and

- the person formed by such consolidation or into which the Issuer is merged, or the person which acquires all or substantially all of its properties and assets or all or substantially all of the Issuer's properties, assets and Liabilities (including the Notes issued under the Indenture) delivers to the Trustee an officer's certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance or transfer and, if a supplemental indenture is required in connection with the transaction, the supplemental indenture comply with the Indenture and that all conditions precedent in the Indenture relating to the transaction have been complied with.

In addition, the conditions set out above only apply in the event that the Issuer wishes to merge or consolidate with another entity or sell all or substantially all of its assets to another entity. The Issuer will not need to satisfy these conditions if it enters into other types of transactions, including any transaction in which it acquires the stock or assets of another entity, any transaction that involves a change in the Issuer's control but in which it does not merge or consolidate, and any transaction in which the Issuer sells less than substantially all of its assets.

Optional Redemption

Except as described in this section, the Notes will not be subject to redemption by the Issuer prior to the Maturity Date.

Optional Redemption due to a Tax Event

Subject to the approval of the Central Bank and any other applicable Brazilian Governmental Authority (if such approval is then required), on any Interest Payment Date, the Issuer may redeem the Notes in whole, but not in part, following the occurrence of a Tax Event (as defined below) at the Base Redemption Price.

Notice of Redemption

The Notes may be redeemed, in whole but not in part, at the option of the Issuer, following the occurrence of a Tax Event upon not more than 60 days' nor less than 30 days' prior notice, at the Base Redemption Price, provided, however, that (i) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were any payment in respect of the Notes then due, and (ii) at the time such notice is given such obligation to pay such Additional Amounts remain in effect.

Before giving notice of redemption, the Issuer shall deliver to the Trustee an officer's certificate stating that (i) subject to the obtainment of any pending necessary approvals, the Issuer is entitled to effect such redemption in accordance with the terms of the Indenture and stating the facts relating thereto and (ii) the Issuer took all reasonable measures available to the Issuer to avoid payment of Additional Amounts. The statement shall be accompanied by a written opinion of counsel to the effect that (x) the Issuer has or will become obligated to pay the Additional Amounts and (y) that all approvals necessary for the Issuer to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion are still necessary but have not been obtained.

Notwithstanding the foregoing, the Issuer shall not have the right to so redeem the Notes unless it has complied with all necessary Central Bank regulations to legally effect such redemption in the cases set forth by applicable regulations, including obtaining a Central Bank authorization.

Optional Redemption due to a Regulatory Event

Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), the Issuer may redeem the Notes, in whole, but not in part, following the occurrence of a Regulatory Event (as defined below) at the Base Redemption Price.

Notice of Redemption

The Notes may be redeemed, in whole but not in part, at the option of the Issuer, following the occurrence of, or the reasonable expectation of the occurrence of, a Regulatory Event upon not more than 60 days' nor less than 30 days' prior notice, at the Base Redemption Price, provided, however, that (i) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Regulatory Event is or is reasonably expected to be effective and (ii) at the time such notice is given the reasonable expectation of the occurrence of a Regulatory Event remains in effect.

Before giving notice of redemption, the Issuer shall deliver to the Trustee an officer's certificate stating that subject to the obtainment of any pending necessary approvals, the Issuer is entitled to effect such redemption in accordance with the terms of the Indenture and stating the facts relating thereto. The statement shall be accompanied by a written opinion of counsel to the effect that (x) a Regulatory Event has occurred or is reasonably expected to occur at the date set forth in such opinion and (y) that all approvals necessary for the Issuer to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion are still necessary but have not been obtained.

Notwithstanding the foregoing, the Issuer shall not have the right to so redeem the Notes unless it has complied with all necessary Central Bank regulations to legally effect such redemption in the cases set forth by applicable regulations, including obtaining a Central Bank authorization.

No Optional Redemption by Noteholders

Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes prior to the Maturity Date, including in the event of deferral of principal, interest or other amounts due on the Notes as described under "—Deferral of Principal, Interest and Other Amounts." There will be no mandatory redemption or sinking fund payments for the Notes.

Purchases of Notes by the Issuer

The Issuer or any legal entity related to the Issuer within the same financial conglomerate or economic/financial group (as defined by applicable Brazilian laws and Central Bank regulations), subject to the prior authorization by the Central Bank, may purchase any Notes in the open market or otherwise at any price; provided that the Issuer is in compliance with the Risk-Based Capital Requirements and that such purchase would not cause the Issuer to fail to be in compliance with such requirements. In determining whether Noteholders holding any requisite principal amount of Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by the Issuer or any legal entity related to the Issuer within the same financial conglomerate or economic/financial group (as defined by applicable Brazilian laws and Central Bank regulations), and known by a responsible officer of the Trustee to be so owned or having provided written notice of such ownership to a responsible officer of the Trustee, will be deemed not outstanding for purposes thereof. Any repurchased Notes shall no longer be considered part of the Issuer's Tier 2 Capital. The Issuer may at any time deliver to the Trustee for cancellation any Notes previously authenticated and delivered pursuant to the Indenture which the Issuer may have acquired in any manner whatsoever. Any resale or reissue of Notes by the Issuer must be undertaken in compliance with applicable laws, regulations and directives.

Events of Default

The following events will each be an Event of Default under the terms of the Notes and the Indenture:

- the Issuer fails to make any principal payment on any of the Notes, whether on the Maturity Date, upon redemption or otherwise, other than due to a deferral of principal described under "—Deferral of Principal, Interest and Other Amounts";

- the Issuer fails to make any interest payment or any payment of Additional Amounts in accordance with the terms of the Notes and the Indenture, other than due to a deferral of interest described under "—Deferral of Principal, Interest and Other Amounts," and this non-payment continues for more than 15 days;

- a court or agency or supervisory authority with competent jurisdiction (1) institutes a proceeding or enters a decree or order for relief under any applicable bankruptcy, intervention, insolvency, administrative liquidation, judicial or extrajudicial reorganization, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar law, or for the Issuer's winding up or the liquidation of its affairs, or adjudging the Issuer bankrupt, or insolvent, (2) enters a decree or order approving as properly filed a petition seeking the Issuer's reorganization, intervention, administrative liquidation, judicial or extrajudicial reorganization, arrangement, adjustment or composition under any applicable law except a reorganization permitted under the Indenture, or (3) enters a decree or order appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Issuer or all or substantially all its assets; and those proceedings, decree or order have not been vacated or have remained in force undischarged or unstayed for 60 days, or (4) any event that under any applicable laws of Brazil or the Cayman Islands occurs that has an analogous effect to any of the foregoing events; or

- the Issuer commences a voluntary case or proceeding under any applicable bankruptcy, intervention, insolvency, liquidation, reorganization or other similar law or any other case or proceeding to be adjudicated bankrupt or insolvent, or the Issuer consents by answer or otherwise to the entry of a decree or order for relief in an involuntary case or proceeding under any applicable bankruptcy, insolvency, reorganization intervention, liquidation or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Issuer for its dissolution or any event that under any applicable laws of Brazil or the Cayman Islands occurs that has an analogous effect to any of the foregoing events.

If an Event of Default described in the third and fourth bullet points above occurs and is continuing, the principal of and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Noteholders. However, the Issuer will only be required to make the payments described in this paragraph after it has been declared bankrupt, put into liquidation or otherwise dissolved, and those payments will be subject to the subordination provisions of the Indenture. In addition, if the Issuer makes payment described in this paragraph from Brazil, the Issuer agrees to obtain the approval of the Central Bank for the remittance of funds outside Brazil, if applicable, and effect applicable registrations with the Central Bank in relation to those payments. There is no right of acceleration in the case of a default in the payment of principal, interest or any other amount due on the Notes or the failure by the Issuer to perform any other obligation under the Indenture.

Notwithstanding the foregoing or any other provision in the Notes and the Indenture, in the event of the Issuer's failure to pay any principal, interest or any other amount due on the Notes when it becomes due and payable, the Noteholder will have the right, subject to the conditions described below, to institute a suit, including a summary proceeding for the enforcement of any such payment.

The holders of a majority in aggregate principal amount of the outstanding Notes may rescind a declaration of acceleration if an amount has been paid to or deposited with the Trustee sufficient to pay the amounts set forth in the applicable provisions of the Indenture and all Events of Default, other than the failure to pay principal due solely because of the automatic acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the Trustee's duties, the Trustee will be under no obligation to exercise any of its rights and powers under the Indenture unless it has been offered an indemnity to its reasonable satisfaction against the costs, expenses and liabilities it may reasonably incur.

To the extent permitted by applicable law, no Noteholder will have any right to institute any proceeding with respect to the Indenture or the Notes or for any remedy thereunder unless (1) the Noteholder has previously given written notice to the Trustee of a continuing Event of Default under the Notes or the continuing breach of a covenant contained in the Indenture, (2) the Noteholders of not less than 33⅓% in aggregate principal amount of the outstanding Notes have made a written request to the Trustee to institute proceedings in respect of the Event of Default or breach in its own name as Trustee, (3) the Noteholders have offered to the Trustee indemnity satisfactory to it, (4) the Trustee for 60 days thereafter has failed to institute any such proceeding and (5) no direction inconsistent with that request has been given to the Trustee during that 60-day period by the holders of a majority in aggregate principal amount of the outstanding Notes. However, subject to any deferral in accordance with "—Deferral of Principal, Interest and Other Amounts," the right of any Noteholder to institute a suit for the enforcement of the payment of principal or interest on the due date therefore may not be impaired without its consent.

The holders of a majority in aggregate principal amount of the outstanding Notes may waive any past default under the Indenture except an uncured default in the payment of principal of or interest on the Notes or an uncured default relating to a covenant or provision of the Indenture that cannot be modified or amended without the consent of each affected Noteholder.

Modification of the Indenture

Amendments Not Requiring Approval

The Issuer and the Trustee may one time, without the prior consent of Noteholders, amend the terms and conditions of the Notes solely to comply with the requirements of the Central Bank to qualify the Notes as Tier 2 Capital pursuant to CMN Resolution No. 3,444. However, the Issuer will not be permitted to make any amendments without Noteholders' consent if such amendment would affect in any way the interest rate of the Notes, the method of computing the amount of principal or interest or other amounts payable on any date, change any place of payment or coin or currency of payment, the cumulative nature of any interest payment due on Amounts in Arrears, the outstanding principal amount of the Notes, the ranking of the Notes (as described in "—Ranking"), the original Maturity Date of the Notes or other changes requiring approval described in "—Changes Requiring Approval."

The Trustee will require an opinion from Brazilian counsel to the Issuer describing the amendments to the terms and conditions of the Notes required by the Central Bank in order to qualify the Notes as Tier 2 Capital. Upon receipt of such opinion of counsel, the Issuer and the Trustee will execute a supplemental indenture, a new form of Note and any other document necessary to implement the amendments required by the Central Bank.

The Issuer and the Trustee may also, without the consent of the Noteholders, modify the Indenture for certain specific purposes, including, among other things, providing for the issuance of Additional Notes, curing ambiguities, defects or inconsistencies or including any other provisions with respect to matters or questions arising under the Indenture, so long as that correction or added provision will not adversely affect the interests of the Noteholders in any material respect.

Changes Requiring Approval

In addition, the Indenture may be modified by the Issuer and the Trustee with the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding. However, no modification may, without the consent of the Noteholder of each outstanding Note affected thereby:

- change the maturity of any payment of principal of or any installment of interest on any Note;
- reduce the principal amount or the rate of interest, or change the method of computing the amount of principal or interest payable on any date;

- reduce the amount payable upon the redemption of any Note, the times at which any Note may be redeemed or, once notice of redemption has been given, the time at which it must thereupon be redeemed;

- change any place of payment where the principal of or interest on the Notes is payable;

- change the coin or currency in which the principal of or interest on the Notes is payable;

- impair the right of the Noteholders to institute suit for the enforcement of any payment on or after the date due;

- modify the subordination provisions of the Indenture in a manner adverse to the Noteholders;

- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required for any modification of or waiver of compliance with any provision of the Indenture or defaults under the Indenture and their consequences; or

- modify the provisions summarized in this paragraph or the provisions of the Indenture regarding waivers of past defaults, except to increase any percentage or to provide that other provisions of the Indenture cannot be modified or waived without the consent of each Noteholder affected thereby.

After an amendment described in the preceding paragraph, the Issuer shall mail or, upon written notice, request the Trustee to mail, to the Noteholders a notice briefly describing the amendment upon written notice from the Issuer. However, the failure to give that notice to all the Noteholders, or any defect in the notice, will not affect the validity of the amendment.

A meeting of the Noteholders may be called by the Trustee at any time. The Issuer or the holders of at least 10% in aggregate principal amount of the outstanding Notes may call a meeting if the Issuer or said holders have requested the Trustee in writing to call such a meeting and the Trustee has not given notice of such a meeting within 20 days of receiving the request. Notices of meetings must include the time and place of the meeting and a general description of the action proposed to be taken at the meeting and must be given not less than 30 days nor more than 60 days before the date of the meeting, except that notices of meetings reconvened after adjournment must be given not less than 10 days nor more than 60 days before the date of the meeting. At any meeting, the presence of Noteholders holding Notes in an aggregate principal amount sufficient to take the action for which the meeting was called will constitute a quorum. Any modifications to or waivers under the Indenture or the Notes will be conclusive and binding on all Noteholders, whether or not they have given their consent (unless required under the Indenture) or were present at any duly held meeting.

Notes owned by the Issuer or any legal entity related to the Issuer within the same financial conglomerate or economic/financial group (as defined by applicable Brazilian laws and Central Bank regulations), and known by a responsible officer of the Trustee to be so owned or having provided written notice of such ownership to a responsible officer of the Trustee, will not be considered outstanding for the purpose of determining whether the requisite aggregate principal amount of Notes has concurred in any request, demand, notice, consent or waiver under the Indenture.

It is not necessary for the Noteholders to approve the particular form of any proposed modification of the Indenture, but it is sufficient if that consent approves the substance of the proposed modification.

Changes Impacting Subordination

Pursuant to CMN Resolution No. 3,444, article 7, paragraph 2, an amendment, modification or revocation of any provision of the Indenture affecting the subordination of the Notes may only be implemented when approved by the Central Bank.

Defeasance

The Issuer may, at its option at any time, with the prior approval of the Central Bank, defease its obligations with respect to the Notes by "legal defeasance" or "covenant defeasance." In general, upon legal defeasance, the Issuer will be deemed to have paid and discharged all its indebtedness under the Notes and to have satisfied all of its obligations under the Notes and the Indenture except that the following will survive: (1) the rights of the Noteholders to receive payments of principal, interest or other amounts due on the Notes, including any Additional Amounts) when the payments are due, (2) the Issuer's obligations relating to the transfer and exchange of Notes, the payment of Additional Amounts, maintenance of a paying agent and a Registrar and certain other matters specified in the Indenture and (3) the rights, powers, trusts, duties, immunities and indemnities of the Trustee.

In addition, through covenant defeasance, the Issuer may defease its obligations under the covenants described above under the caption "—Certain Covenants," other than the covenants described under

"—Performance of Obligations Under the Notes and the Indenture" and "—Use of Proceeds" and certain covenants relating to the deposit of amounts to pay principal and interest on the Notes, actions with respect to paying agents, the return of unclaimed monies and other matters. Following covenant defeasance, the Issuer may omit to comply with any defeased covenant, and the subordination provisions of the Indenture will cease to be effective.

In order to exercise either legal defeasance or covenant defeasance, the Issuer must satisfy the following conditions:

- the Issuer must irrevocably deposit with the Trustee cash in: (i) U.S. dollars; or (ii) U.S. Government Obligations; or (iii) a combination thereof, in an amount sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of and each installment of interest on the Notes in accordance with the terms of the Indenture and the Notes;

- no Event of Default, or event which with notice or lapse of time or other conditions would become an Event of Default, has occurred and is continuing on the date of the deposit and, with respect to the liquidation, bankruptcy, insolvency and other events described in the third and fourth bullet points under "—Events of Default" at any time during the period ending on the 123rd day after the date of that deposit or, if longer, the period ending on the day after the longest applicable preference period relating to that deposit expires;

- the Issuer must deliver to the Trustee either a ruling received from the Internal Revenue Service and any other relevant taxing authority (covering each Taxing Jurisdiction), or an opinion of counsel to the effect that payment of amounts deposited in trust with the Trustee will not be subject to future taxes or other governmental charges imposed by any Taxing Jurisdiction, except to the extent that Additional Amounts in respect thereof have been deposited in trust with the Trustee (as to the United States, in the case of legal defeasance, such an opinion could not be given absent a change of law after the date of the Indenture);

- the Trustee has received an opinion of counsel to the effect that such defeasance will not be deemed to be a taxable event for the Noteholders for United States income tax purposes, unless the Trustee has received documentary evidence that each Noteholder is either not subject to or is exempt from United States income taxation;

- such defeasance will not result in a breach or violation of any other agreement or instrument to which the Issuer is a party or by which the Issuer is bound;

- such defeasance will not result in the trust arising from that deposit constituting an investment company as defined under the U.S. Investment Company Act of 1940, as amended;

- the Issuer has delivered an officer's certificate and an opinion of counsel stating that all the conditions to defeasance have been complied with; and

- no default in the payment of principal, premium, if any, or interest on any of the Senior Indebtedness has occurred and is continuing, such Senior Indebtedness has not been accelerated and no other event of default under the Senior Indebtedness has occurred and is continuing that would permit acceleration of those obligations.

Satisfaction and Discharge

The Notes will be deemed to be paid for all purposes under the Indenture, and the Issuer's indebtedness under the Notes will be deemed to have been satisfied and discharged if the following conditions are met, among others:

- either the Issuer has given a notice of redemption and all other conditions to redemption have been met or the principal and all amounts due and payable on the Notes have become due and payable or, subject to approval of the Central Bank, if required, will become due and payable within one year;

- the Issuer has irrevocably deposited money in trust with the Trustee that will be sufficient to pay when due all the principal of and interest on the Notes to maturity or redemption; and

- no Event of Default or event that, with the giving of notice, lapse of time or other conditions, would become an Event of Default has occurred and is continuing on the date of the deposit, and the deposit will not breach any other instrument to which the Issuer is a party or by which the Issuer is bound.

The Indenture will cease to be of further effect when:

- either (1) all the Notes have been delivered to the Trustee for cancellation (other than destroyed, lost or stolen Notes that have been replaced or paid in accordance with the Indenture and Notes that are deemed to have been paid as described in the preceding paragraph and Notes for whose payment money has been deposited in trust or held in trust by the Issuer and have thereafter been returned to the Issuer) or (2) all Notes that have not been delivered to the Trustee for cancellation have been deemed to have been paid as described in the preceding paragraph;

- all other amounts due and payable under the Indenture have been paid; and

- the Issuer has delivered to the Trustee an officer's certificate and an opinion of counsel stating that the conditions to satisfaction and discharge of the Indenture have been complied with.

Notwithstanding the satisfaction and discharge of the Notes and/or the Indenture, the Issuer's obligations under specified provisions of the Indenture relating to the transfer and exchange of Notes, payment of Additional Amounts, maintenance of a paying agent and a Registrar and certain other matters specified in the Indenture including, but not limited to, the rights, powers, immunities and protections of the Trustee will survive.

Replacement of Notes

If any Note becomes mutilated, destroyed, lost or stolen, the Issuer will execute and, upon the Issuer's request, the Trustee will authenticate and deliver a new note of like tenor, interest rate and principal amount in exchange and substitution for that note, so long as the Noteholder delivers to the Issuer, the Registrar and the Trustee satisfactory evidence of its ownership and of the destruction, loss or theft of the Note and provides such security or indemnity as they may require to hold them harmless. However, if a mutilated, destroyed, lost or stolen note has become or is about to become due and payable, the Issuer may pay the outstanding amounts due on the Note instead of issuing a new note. Mutilated or defaced Notes must be surrendered before replacements will be issued. The Issuer may require that the Noteholder pay any taxes or other expenses in connection with the replacement of the Note.

The Trustee

Deutsche Bank Trust Company Americas is the Trustee under the Indenture. The address of the Trustee is 60 Wall Street, 27th Floor, New York, N.Y. 10005.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility. The obligations of the Trustee to any Noteholder are subject to the immunities and rights set forth in the Indenture.

The Issuer and its affiliates may from time to time enter into banking, trust or other transactions with the Trustee and its affiliates in the ordinary course of business.

The Trustee and its affiliates may hold Notes in their own names.

Paying Agents; Transfer Agents; Registrar

The Issuer has initially appointed the Trustee as paying agent, transfer agent and Registrar and has appointed Deutsche Bank Luxembourg S.A. as the Luxembourg transfer agent and paying agent. The Issuer may at any time appoint other paying agents, transfer agents and Registrars. However, the Issuer will at all times maintain a paying agent in New York until the Notes are paid and a listing and paying agent in Luxembourg for so long as the Notes are listed on the Euro MTF. We will provide prompt notice of any changes in the listing agent or any change in the location of their offices.

Notices

The Issuer will give written notice to the Trustee promptly, and in any event within ten days after it becomes aware, of the occurrence of any Event of Default under the Indenture or event that, with the giving of notice, lapse of time or other conditions, would become an Event of Default.

Whenever the Indenture requires notice to the Noteholders, such notice will be given by the Trustee, in the name and at the expense of the Issuer, (unless the Indenture specifies otherwise) as follows:

- (i) to holders of definitive, non-Global Notes by first class mail, postage prepaid, to the address of each Noteholder as it appears in the note register or (ii) to holders of Global Notes, by giving notice to the relevant depositary in accordance with its applicable procedures; and

- so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be Luxembourger Wort) or on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice will be deemed to have been delivered on the date of first publication.

See "—Deferral of Principal, Interest and Other Amounts" for more information on the notice requirements for the deferral of principal, interest or other amounts by the Issuer.

Notice will be deemed to have been validly given on the date of physical delivery, mailing or publication, as the case may be, in accordance with the foregoing.

Prescription

Claims against the Issuer (if any) for payment in respect of the Notes will be prescribed and become void unless made within a period of six years from the date on which the relevant payment became due.

Governing Law

The Indenture and the Notes are governed by the laws of the State of New York, except for the subordination provisions thereof, which are governed by the laws of Brazil.

Jurisdiction

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, and any appellate court from any of those courts. As long as any of the Notes remain outstanding, the Issuer will at all times have an authorized agent in The City of New York, upon whom process may be served in any legal action or proceeding arising out of or relating to the Indenture or any Note. Service of process upon such agent and written notice of such service mailed or delivered to the Issuer will to the extent permitted by law be deemed in every respect effective service of process upon the Issuer in any such legal action or proceeding. The Issuer will appoint BTG Pactual US Capital LLC as its agent for such purpose, and covenants and agrees that service of process in any suit, action or proceeding may be made upon it at the office of such agent at 601 Lexington Avenue, 57th floor; New York, N.Y. 10022 (or at such other address or at the office of such other authorized agent as the Issuer may designate by written notice to the Trustee).

Currency Rate Indemnity

The U.S. dollar is the sole currency of account for the Notes and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the Issuer's winding-up or dissolution or otherwise) by a Noteholder with respect to any amount due to it under the Notes will constitute a discharge to the Issuer only to the extent that the Noteholder is able to purchase with the amount it receives or recovers the relevant amount in U.S. dollars (or if it is not practicable to make a purchase of U.S. dollars on that date, on the first date on which it is practicable to do so). If the amount in U.S. dollars is less than the amount expressed to be due to the Noteholder, the Issuer will indemnify the Noteholder against any loss sustained as a result. In any event, the Issuer will indemnify the Noteholder against the cost of any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the Noteholder to certify in a satisfactory manner (indicating sources of information used) that it would have suffered a loss had it made an actual purchase of U.S. dollar with the amount it received or recovered in the other currency on the date it received or recovered that amount (or, if a purchase of U.S. dollars on that date had not been practicable, on the first date on which it would have been practicable, so long as the Noteholder certifies the need for the change of date).

These indemnities are a separate and independent obligation from the Issuer's other obligations, will give rise to a separate and independent cause of action, will apply regardless of any waiver or extension granted by the Noteholder and will continue in full force and effect in spite of any other judgment or order or the filing of any proof of claim in the winding-up of the Issuer's company for a liquidated sum.

Certain Definitions

"Additional Interest Amount" means the amount of interest on any Amount in Arrears at the Arrears Rate.

"Base Redemption Price" means (i) 100% of the aggregate principal amount, plus (ii) accrued and unpaid interest, if any, thereon through the Redemption Date, including Additional Amounts, Additional Interest Amounts and Amount in Arrears, if any.

"Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City.

"CMN Resolution No. 3,444" means Resolution No. 3,444 of February 28, 2007 issued by the Conselho Monetário Nacional, the National Monetary Council of Brazil, as amended, modified, supplemented or superseded from time to time.

"Initial Purchasers" means BB Securities Limited, Banco Bradesco BBI S.A., Banco BTG Pactual S.A.—Cayman Branch, CITIC Securities Corporate Finance (HK) Limited, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc.

"Liabilities" means all liabilities of any person, including, but not limited to, (i) any statutory claim, (ii) any amount payable (whether as a direct obligation or indirectly through a guarantee of a liability by such person) pursuant to an agreement or instrument involving or evidencing money borrowed or received, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase or pursuant to a lease with substantially the same economic effect as any such agreement or instrument, (iii) any instrument which is qualified as a liability pursuant to regulations issued by the Central Bank or other Brazilian banking or monetary authorities (to the extent the Central Bank or other such authorities have issued guidance with respect to the accounting treatment of such instrument, and if no such guidance has been issued, then pursuant to CVM regulations), in whole or in part (if in part, only to such extent) and (iv) any other claim of a creditor of the Issuer.

"Payment Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City.

"Redemption Date" means the date of redemption of the Notes pursuant to the terms and conditions of the Indenture.

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

"Senior Indebtedness" means all Liabilities of the Issuer other than (i) the Pari Passu Liabilities and (ii) Junior Liabilities."

"Tax Event" means a determination by the Issuer that immediately prior to the giving of proper notice with respect to the relevant Interest Payment Date that the Issuer would, because of any change in or amendment to any treaty with, or the laws (or any rules or regulations thereunder) of, Brazil or any political subdivision or authority thereof or therein having power to tax or any amendment to or change in an official interpretation, administration or application of such laws, treaties, rules or regulations (including a holding by a court of competent jurisdiction), which, in any case, will become effective after the date of the issuance of the Notes for a payment on the Notes, be obligated to pay Additional Amounts in excess of the Additional Amounts that the Issuer would be obligated to pay if payments of interest under the Notes were subject to withholding or deduction at a rate of (a) 15% in the case of any taxes imposed by Brazil, (b) 25% in the case of taxes imposed by Brazil on amounts paid to residents of countries in which income is either tax-exempt or subject to an income tax rate capped at 20% or where the laws of that country or location impose restrictions on the disclosure of (i) shareholding composition; or (ii) the ownership of the investment; or (iii) the beneficial ownership of income paid to non-resident persons, pursuant to Law No. 9,779, dated January 19, 1999, (c) 0% in the case of any Taxes imposed by the Cayman Islands, or (d) the applicable tax rate in effect with respect to any other jurisdiction in which a paying agent is located on the date the Issuer appoints such paying agent and, in each such case, the Issuer cannot avoid such circumstance by taking reasonable measures available to it.

"Tier 1 Capital" shall mean any capital authorized in accordance with article 1, paragraph 1, of CMN Resolution No. 3,444, which jointly with any Tier 2 Capital comprises the required capital (*patrimônio de referência*).

"Tier 2 Capital" shall mean any capital authorized in accordance with to article 1, paragraph 2, of CMN Resolution No. 3,444, which jointly with any Tier 1 Capital comprises the required capital (*patrimônio de referência*).

"U.S. Government Obligations" means obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, provided that the full faith and credit of the United States of America is pledged in support thereof.

Book Entry; Delivery and Form

Notes sold pursuant to Regulation S will be represented by a Global Note in fully registered form without interest coupons (the "Regulation S Global Note") and will be registered in the name of a nominee of The Depository Trust Company ("DTC") and deposited with a custodian for DTC. Notes sold pursuant to Rule 144A will be represented by a Global Note in fully registered form without interest coupons (the "Rule 144A Global Note" and, together with the Regulation S Global Note, the "Global Notes") and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC. See "Transfer Restrictions" for more information.

Exchanges between the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note to a transferee, who takes delivery of that interest through a Note offered and sold in the United States to qualified institutional buyers pursuant to Rule 144A Global Note, will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferee of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a "qualified purchaser" within the meaning of Section 2(A)(51) of the U.S. Investment Company Act of 1940 that is also a qualified institutional buyer within the meaning of Rule 144A in a transaction complying with the requirements of Rule 144A. Transfers by an owner of a beneficial interest in a Rule 144A Global Note to a transferee who takes delivery of the interest through a Regulation S Global Note will be made only upon receipt by the Trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Global Notes

Upon receipt of the Regulation S Global Note and the Rule 144A Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("DTC Participants"), including Euroclear Bank S.A./N.V., as operator of Euroclear System ("Euroclear") and Clearstream Banking, sociétè anonyme ("Clearstream"), or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. Except as described in "—Certificated Notes," owners of beneficial interests in a Global Note will not be entitled to have any portions of such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered the owners or holders of the Global Note (or any notes represented thereby) under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in the Global Notes in customers' securities accounts in the depositaries' names on the books of DTC.

Payments of the principal of and interest on Global Notes will be made to DTC or its nominee as the registered owner thereof. Neither we nor any Initial Purchaser will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We anticipate that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by its nominee, will credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. We also expect that payments by DTC Participants to owners of beneficial interests in a Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificated note in respect of such interest. Transfers between accountholders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, crossmarket transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream accountholder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described above, DTC will exchange the Global Notes for certificated Notes (bearing a restrictive legend, unless the Company determines otherwise in compliance with applicable law), which will be distributed to its participants. Holders of indirect interests in the Global Notes through DTC Participants have no direct rights to enforce such interests while the Notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("indirect participants").

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Rule 144A Global Note among participants and accountholders of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Initial Purchasers will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depositary for a Global Note and a successor depositary is not appointed by us within 90 days, (2) any of the Notes has become immediately due and payable in accordance with "—Events of Default and Remedies" or (3) if the Company, at its sole discretion, determines that the Global Notes will be exchangeable for certificated notes and the Company notifies the Trustee thereof, the Company will issue certificated notes in registered form in exchange for the Regulation S Global Note and the Rule 144A Global Note, as the case may be. Upon receipt of such notice from DTC or a paying agent, as the case may be, the Company will use its best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for certificated Notes and cause the requested certificated Notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for certificated Notes will be required to provide the registrar with (a) written instruction and other information required by the Company and the registrar to complete, execute and deliver such certificated Notes and (b) certification that such interest is being transferred in compliance with the Securities Act. In all cases, certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC. Certificated Notes will not be eligible for clearing and settlement through the DTC, Euroclear or Clearstream.

TAXATION

PROSPECTIVE PURCHASERS OF THE NOTES OR COUPONS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Notes.

Prospective purchasers should consult their tax advisors as to the specific tax consequences of acquiring, holding and disposing of the Notes, in particular with regard to notes having special features such as Notes denominated in a foreign currency as to the holder and Notes subject to currency constraint, sovereign event or credit event provisions.

Prospective purchasers should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and the country where the relevant holder is domiciled. Prospective purchasers should also note that there is no tax treaty between Brazil and the United States.

This summary does not address any tax issues that may affect solely the issuer, such as the deductibility of expenses.

As a general rule, non-Brazilian residents are taxed in Brazil only when income is derived from Brazilian sources. The applicability of Brazilian taxes with respect to payments on the Notes will depend on the origin of such payments and the domicile of the recipient of such payments.

Payments on the Notes made by the Issuer

Based on the position that, as a general rule, the Cayman Branch is considered to be domiciled outside of Brazil for tax purposes, payments of income made to a non-resident holder by the Issuer with respect to notes issued through our Cayman Branch will not generally be subject to withholding or deduction with respect to Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with resources held by such entity outside of Brazil. If the Cayman Branch is not successfully qualified as a non-resident of Brazil and the above position does not prevail in the event of a tax dispute, the amounts remitted abroad could be subject to Brazilian withholding income tax at a rate of up to 25%, plus interest and fines. See “Gains.”

Payments on the Notes made from Brazil

In the event the Cayman Islands Branch fails to punctually pay any due amount, comprising payment of principal, interest and all other amounts that may be due and payable in respect of the Notes, the Issuer will be required to assume the guarantee obligation to pay such due amount to the holder. In spite of the lack of a clear regulation regarding the remittance of funds from Brazil to abroad in connection with the execution of this type of obligation, we take the position that this transaction should be viewed as a new credit transaction between the Issuer and the Cayman Islands Branch, which is not subject to withholding income taxation in Brazil. If the above position does not prevail in case of a tax dispute, the amounts that may be remitted by the Issuer abroad in the aforementioned circumstances could be subject to Brazilian withholding income tax at a rate of 15%, or 25% if the non-resident holder is domiciled in a tax haven jurisdiction (that is deemed to be a country or dependency which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%, or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of income attributed to non-residents pursuant to Section 23 of Law No. 11,727 enacted on June 23, 2008 and §4º of Law No. 9,430 enacted on December 27, 1996, a "tax haven jurisdiction").

In the event the Issuer is required to make any payment as a guarantor in connection with the Notes to the holder, the Issuer would be required to pay such additional amounts as may be necessary to ensure that the net amounts receivable by the holder after withholding for taxes will equal the amounts that would have been payable in the absence of such withholding.

Gains

According to Section 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a non-resident to another non-resident made outside Brazil are subject to taxation in Brazil at a rate of 15% or 25%, depending on whether or not the beneficiary is resident of a tax haven jurisdiction under Brazilian law.

Based on the fact that the Notes are issued abroad and, therefore, may not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, gains on the sale or other disposition of such Notes made outside Brazil by a non-resident holder, other than a branch or a subsidiary of a Brazilian resident, to another non-Brazilian resident would not be subject to Brazilian taxes. However, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts. If the position mentioned above does not prevail, gains realized by a non-resident holder from the sale or other disposition of the Notes could be subject to Brazilian withholding income tax at a rate of 15% (or 25% if the non-resident holder is domiciled in a tax haven jurisdiction).

Although we believe that gains realized by a Non-Resident Holder on the repayment or redemption of the Notes as a result of a fluctuation in currency exchange rates do not constitute taxable income in Brazil, Brazilian tax laws are not entirely clear on the matter. If this position does not prevail, any such gains may be subject to Brazilian withholding tax at the rates of 15% or 25%, as discussed above. In this case, the Issuer would be required to pay such additional amounts as may be necessary to ensure that the net amounts to be received by a non-resident holder after withholding for the applicable taxes will equal the amounts that would have been payable in the absence of such withholding.

Other Tax considerations

IOF/Câmbio may apply if payments are made from Brazil. Pursuant to Decree No. 6,306, of December 14, 2007, the conversion of foreign currency into Brazilian *reais* and the conversion of Brazilian *reais* into foreign currency are subject to the IOF/Câmbio. Currently, the IOF/Câmbio rate is 0.38% for most transfers of foreign currency into *reais*. According to Section 15-A of the Decree No. 6,306, the liquidation of exchange transactions in connection with foreign financing or loans, for both inflow and outflow of proceeds into and from Brazil, are subject to IOF/Câmbio at a zero percent rate. However, in the case of the liquidation of foreign exchange transactions (including simultaneous foreign exchange transactions) agreed from June 14, 2012, in connection with the inflow of proceeds to Brazil deriving from foreign loans, including those obtained through the issuance of notes in the international market, with the minimum average term not exceeding 720 days, the IOF/Câmbio tax rate is 6% (this rate of 6% will be levied with penalties and interest in the case of financings or international bonds with a minimum average term longer than 720 days in which an early redemption occurs in the first 720 days). Note that the Brazilian Government may increase the current IOF/Câmbio rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

IOF also applies to credit transactions in general, which may include the performance of guarantee transactions between a guarantor and a guaranteed party. IOF is not levied on foreign credit transactions in which the creditor is domiciled outside Brazil, in which case IOF/Câmbio will apply. IOF levied on credit transactions is usually assessed at a daily rate of 0.0041%, up to a limit of 365 days. Additionally, an IOF surtax of 0.38% is currently applicable to most of the credit transactions, regardless of the term for the transaction maturing.

Generally, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the Notes outside Brazil. Under Brazilian law, the transfer of a Note by gift made by a holder (whether or not a non-resident holder) and involving a resident of Brazil may be subject to Gift Tax (*Imposto Sobre*

Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos) imposed on the donee by the state in which such Brazilian resident resides.

Cayman Islands Tax Considerations

Payments in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The holder of any Note (or the legal personal representative of such holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

Certain United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY HOLDER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING OF THIS OFFERING OR THE MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion summarizes certain U.S. federal income tax considerations associated with the purchase, ownership, and disposition of Notes issued in this offering by U.S. Holders (as defined below). This discussion is a summary for general information only and does not consider all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership and disposition of a Note by a prospective investor in light of its particular circumstances. This discussion is limited to the U.S. federal income tax considerations to beneficial owners of a Note who acquire a Note upon initial issuance at the initial offering price and hold such Note as a capital asset under the Code. This summary does not discuss all the tax considerations that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- dealers or traders in securities or currencies;
- financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt entities;
- insurance companies;
- persons holding a Note as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- persons liable for alternative minimum tax;
- grantor trusts;

- persons that own or are deemed to own 10.0% or more of the voting shares of the Issuer;
- persons whose "functional currency" is not the U.S. dollar; or
- certain former citizens or long-term residents of the United States.

Moreover, the discussion below is based upon the provisions of the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, and such provisions may be repealed, revoked, modified or subject to differing interpretations, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below. Furthermore, this discussion does not address the U.S. federal estate and gift tax considerations of the acquisition, ownership or disposition of a Note.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity subject to tax as a corporation) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding a Note, we urge you to consult your own tax advisor.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO IT OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

Characterization of the Noters

As a result of certain features of the Notes, the U.S. federal income tax characterization of the Notes is uncertain, and there is a substantial risk that the Notes may be characterized as equity. No rulings have or will be sought from the IRS with respect to their treatment. Different characterizations may result in differences in the timing, character and amount of income recognized, as well as result in other U.S. federal income tax consequences. The discussion below under "—Debt Characterization" summarizes certain U.S. federal income tax considerations in the event that the Notes are characterized as debt for U.S. federal income tax purposes, whereas the discussion below under "—Equity Characterization" summarizes certain U.S. federal income tax considerations in the event that the Notes are characterized as equity for U.S. federal income tax purposes.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS TAX ADVISORS AS TO THE PROPER CHARACTERIZATION OF THE NOTES.

Debt Characterization

The following discussion summarizes certain U.S. federal income tax considerations in the event that the Notes are characterized as debt for U.S. federal income tax purposes.

Under certain circumstances, the Issuer will defer payments on the Notes or may redeem the Notes prior to their scheduled maturity. U.S. Treasury Regulations provide special rules for contingent payment debt instruments which, if applicable, could cause the timing, amount and character of a U.S. Holder's income, gain or loss with respect to the Notes to be different from those described below. For purposes of determining whether a debt instrument is a contingent payment debt instrument, remote or incidental contingencies are ignored. The Issuer intends to treat the possibility of an early redemption or a deferral of payments as remote. Accordingly, the Issuer does not intend to treat the Notes as contingent payment debt instruments. The Issuer's treatment will be binding on all U.S. Holders, except a U.S. Holder that discloses its differing treatment on its U.S. federal income tax return. However, the Issuer's treatment is not binding on the IRS. If the IRS were to challenge the Issuer's treatment, U.S. Holders might be required to accrue income on the Notes in excess of stated interest and to treat as ordinary income, rather than capital gain, any gain recognized on the disposition of the Notes.

Payment of Interest and Additional Amounts

Interest on the Notes (and any Additional Amounts paid by the Issuer) generally will be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes.

A U.S. Holder may be entitled to deduct or credit against its U.S. federal income tax liability any foreign taxes withheld by the Issuer from payments on the Notes, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of such U.S. Holder's foreign taxes for a particular tax year). The rules regarding the calculation and timing of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the availability of deductions are complex and depend upon a U.S. Holder's particular circumstances. Interest income on a Note generally will be considered foreign source income. Such income generally will constitute "passive category income" or, in the case of certain U.S. Holders, "general category income" for foreign tax credit purposes. U.S. Holders should consult independent tax advisors regarding the availability of the foreign tax credit in their particular circumstances.

Original Issue Discount

The Notes may be issued with original issue discount, or "OID," for U.S. federal income tax purposes. The amount of OID on the Notes, if any, will equal the excess of the "stated redemption price at maturity" of the Notes over their "issue price" unless such excess is *de minimis* (i.e., less than one-quarter of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity). The "stated redemption price at maturity" of a Note will equal the sum of its principal amount plus all other payments payable thereunder, other than payments of "qualified stated interest" (defined generally as stated interest that is unconditionally payable in cash or other property, other than our debt instruments, at least annually at a single fixed rate). The "issue price" of a Note will equal the first price at which a substantial amount of Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers.

If the Notes are issued with OID, a U.S. Holder will be required to include in taxable ordinary income for any particular taxable year the daily portion of the OID described in the preceding paragraph that accrues on the note for each day during the taxable year on which such holder holds the note, as determined on a compounding basis, whether reporting on the cash or accrual basis of accounting for U.S. federal income tax purposes. Thus, a U.S. Holder will be required to include OID in income in advance of the receipt of the cash to which such OID is attributable.

Sale, Exchange, Retirement, or Other Disposition

A U.S. Holder generally will recognize taxable gain or loss upon the sale, exchange, redemption, or other disposition of the Notes in an amount equal to the difference between the amount realized upon the disposition (other than any amount attributable to accrued qualified stated interest not previously included in income, which will be taxable as ordinary interest income in the manner described above) and the U.S. Holder's adjusted tax basis in the Notes.

A U.S. Holder's adjusted tax basis in a Note generally will be equal to the purchase price increased by any OID included in the U.S. Holder's income prior to the disposition of the Note and decreased by any payments received on the Note included in the stated redemption price at maturity of the Note. Any gain or loss recognized on a disposition of Notes will be capital gain or loss, and will be long-term capital gain or loss if the Notes have been held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. Holders generally are eligible for reduced rates of taxation. Deductions in respect of capital losses are subject to limitations.

In most circumstances, gain realized by a U.S. Holder on the sale or other disposition of a Note will be treated as U.S. source for U.S. foreign tax credit limitation purposes.

Equity Characterization

The following discussion summarizes certain U.S. federal income tax considerations in the event that the Notes are characterized as equity for U.S. federal income tax purposes.

Payment of Interest and Additional Amounts

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," the gross amount of any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) to a U.S. Holder (including any Brazilian tax withheld or deducted, if any) will be taxable as dividend income to the extent such amounts are paid out of the current or accumulated earnings and profits of the Issuer as determined under U.S. federal income tax principles and will be includible in your gross income upon receipt. A payment in excess of the Issuer's current and accumulated earnings and profits will be treated as a non-taxable return of capital, thereby reducing a U.S. Holder's adjusted basis (but not below zero) in the Note on which the payment is made and, thereafter, as a capital gain to the extent it exceeds a U.S. Holder's basis in such Note. The Issuer, however, does not intend to maintain calculations of its earnings and profits for U.S. federal income tax purposes. Therefore, U.S. Holders should expect that any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) will generally be treated as dividends for U.S. federal income tax purposes. Under current law, dividends will not be eligible for the dividends-received-deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations and will not be eligible for the 15.0% preferential dividend rate currently applicable to certain "qualified dividend income" received by individuals. Any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) will generally be treated as foreign source income for U.S. foreign tax credit purposes.

Sale, Exchange, Retirement, or Other Disposition

A U.S. Holder will generally recognize gain or loss upon a sale of a note in an amount equal to the difference between the amount realized on such sale or exchange and the U.S. Holder's adjusted tax basis in the Notes sold, as the case may be. Subject to the discussion below under "—Passive Foreign Investment Company Considerations," any gain or loss recognized by a U.S. Holder will be treated as capital gain or loss. Such gain or loss will be long-term capital gain or loss to the extent that a U.S. Holder's holding period exceeds one year. Long-term capital gain of a non-corporate U.S. Holder is generally subject to preferential rates. Gain or loss, if any, recognized by a U.S. Holder will generally be treated as U.S. source gain or loss, as the case may be, and will generally be treated as "passive category income" for most U.S. Holders for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations under the Code.

Foreign Tax Credits

Subject to certain generally applicable limitations, including a holding period requirement, that may vary depending upon your circumstances, a U.S. Holder may be entitled to a credit against its U.S. federal income tax liability for Brazilian income taxes withheld from payments on the Notes. Instead of claiming a credit, a U.S. Holder may, at its election, deduct such otherwise creditable Brazilian income taxes in computing taxable income, subject to generally applicable limitations under U.S. law. The IRS may take the view that a U.S. Holder's legal right to receive the principal of the Notes on a fixed date is sufficient to cause the Notes to fail to satisfy the holding period requirement, in which case U.S. Holders may not be eligible to claim such a credit for such taxes, but may instead be able to claim a deduction. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

A U.S. Holder must satisfy minimum holding period requirements in order to be eligible to claim a foreign tax credit for foreign taxes withheld on dividends. The rules governing foreign tax credits are complex and, therefore, U.S. Holders are urged to consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to make effective use of foreign tax credits. If a Brazilian tax is withheld on the sale or other disposition of a Note, a U.S. Holder's amount realized will include the gross amount of proceeds of the sale or disposition before the deduction of the Brazilian tax. See "—Brazilian Tax Considerations" for a description of when a disposition may be subject to taxation by Brazil. U.S. Holders should consult their tax advisors as to whether these Brazilian taxes may be creditable against the holder's U.S. federal income tax on foreign-source income from other sources or are otherwise deductible, particularly in light of the fact that income recognized on a sale or other disposition of a Note will generally constitute U.S.-source income.

Passive Foreign Investment Company Considerations

In general, the passive foreign investment company ("PFIC") rules are designed to eliminate the benefit of deferral of U.S. federal income tax that a U.S. Holder could derive from investing in certain corporations that are organized outside the United States that derive substantial passive income and/or hold substantial passive assets and that do not distribute all their earnings on a current basis. A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75% of its gross income is "passive income" (the "Income Test") or (ii) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income" (the "Asset Test").

The determination of whether the Issuer is classified as a PFIC is a factual determination that is made annually based on the categories and amounts of income that the Issuer earns and the categories and valuation of its assets, all of which are subject to change. Passive income for these purposes generally includes dividends, interest, rents, royalties and gains from commodities and securities transactions. In the case of a company engaged in an active banking business, special rules apply for determining the character of income and assets. The IRS has issued a notice (the "Notice") that would classify a non-U.S. bank as an "active bank" if, among other things, deposits from unrelated persons represent at least 50% of the non-U.S. bank's liabilities, at least 1,000 unrelated depositors are citizens or residents of the country in which the non-U.S. bank is licensed to accept deposits, loans to unrelated persons represent at least 50% of the outstanding principal of all loans, and at least 60% of the non-U.S. bank's gross income is derived from bona fide banking activities. Subsequent to the issuance of the Notice, the U.S. Department of Treasury issued proposed regulations (the "Proposed Regulations"), not yet in effect, which would markedly modify the Notice and which, if finalized, would apply retroactively from taxable years beginning after December 31, 1994. In order to be an active bank under the Proposed Regulations, a foreign corporation must meet certain licensing, deposit-taking, and lending and gross income requirements.

We believe that the Issuer should meet the standards necessary to be treated as an active bank under the Proposed Regulations, but may not meet the standards necessary to be treated as an active bank under the Notice.

Assuming the Issuer meets the active bank standards described above, under the Proposed Regulations, we do not believe that it should be classified as a PFIC for the taxable year ending December 31, 2012 and any subsequent taxable year, based upon its current and projected income, assets and activities. If the Notice were to apply, however, the Issuer might be treated as a PFIC for the taxable year ending December 31, 2012. We intend to take the position that the Issuer is not a PFIC for U.S. federal income tax purposes under the Proposed Regulations. We believe that the Proposed Regulations are meant to supersede the Notice, and, therefore, that we may rely only on the Proposed Regulations to determine whether the Issuer is properly classified as a PFIC.

Because a PFIC determination is a factual determination that must be made following the close of each taxable year and is based on, among other things, the market value of the Issuer's assets and shares, and because the

Proposed Regulations (although proposed to be retroactive in application) are not currently in force, there can be no assurance that the Issuer will not be considered a PFIC for the current taxable year or any subsequent taxable year. Further, although the Proposed Regulations would generally apply retroactively, there can be no assurance that the Proposed Regulations will be finalized in their current form.

If the Issuer were a PFIC, a U.S. Holder of Notes would generally be subject to special rules which could impose certain onerous tax consequences. U.S. Holders should consult their tax advisors regarding the tax consequences that would arise if the Issuer were treated as a PFIC under the Notice or the Proposed Regulations.

Recent Legislation with Respect to Certain U.S. Tax Reporting Requirements

Recently enacted legislation requires U.S. individuals (and to the extent provided in Treasury regulations, certain domestic entities) that hold an interest in a "specified foreign financial asset," including any interest in a foreign entity, such as the Issuer, to attach a disclosure statement to their income tax return for any year in which the aggregate value of all such assets exceeds US$50,000, and imposes certain penalties for noncompliance. The reporting requirement with respect to such assets is effective for taxable years beginning after March 18, 2010. U.S. Holders should consult their independent tax advisors regarding the consequences of these reporting requirements in connection with the acquisition of a Note.

Application of FATCA to the Notes

Legislation incorporating provisions referred to as FATCA was passed in the United States on March 18, 2010. Under the FATCA provisions, it is possible that the Issuer (or if the Notes are held through another financial institution, such other financial institution) may be required (pursuant to an agreement to be entered into with the IRS or under applicable law) to (i) request certain information from holders or beneficial owners of Notes, which may be provided to the IRS, and (ii) withhold U.S. federal tax on some portion of payments made after December 31, 2016 with respect to the Notes if either (x) such information is not provided or (y) such payments are made to a foreign financial institution that has not entered into a similar agreement with the IRS (and is not otherwise required to comply with the FATCA regime under applicable law).

This description is based on guidance issued by the IRS, including recently issued proposed regulations. Future guidance may affect the application of FATCA to the Notes.

FATCA IS COMPLEX AND ITS APPLICATION TO THE NOTES IS UNCERTAIN. PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE APPLICATION OF FATCA TO THE NOTES.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of ERISA, plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, plans and other arrangements that are subject to the provisions of any Similar Law and entities or accounts, including insurance company general accounts, whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each, a "Plan").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "ERISA Plan") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan, including without limitation the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Law.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of Section 4975 of the Code, unless an exemption is available. Such parties in interest or disqualified persons could include, without limitation, the Issuer, the Initial Purchasers, the agents or any of their respective affiliates. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Issuer or certain of its affiliates is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor (the "DOL") has issued prohibited transaction class exemption ("PTCE") 95-60, which may apply to the acquisition and holding of the Notes by an insurance company general account the underlying assets of which include plan assets of an ERISA Plan. There can be no assurance that all of the conditions of PTCE 95-60 will be satisfied in connection with an insurance company general account's investment in the Notes, or that the scope of relief provided by any such exemption will cover all acts that might be construed as prohibited transactions.

The acquisition and/or holding of Notes by an ERISA Plan may also result in prohibited transactions under Section 406 of ERISA and/or Section 4975 of the Code if the underlying assets of the Issuer were deemed to be "plan assets" of an ERISA Plan as a result of its investment in the Notes. Under regulations issued by the U.S. Department of Labor, as modified by Section 3(42) of ERISA (the "Plan Asset Regulations"), when an ERISA Plan acquires an equity interest in an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the Investment Company Act, the ERISA Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that (i) less than 25% of the total value of each class of equity interests in the entity is held by plans, accounts or arrangements subject to Title I of ERISA or Section 4975 of the Code and entities whose underlying assets are deemed to include assets of such plans, accounts or arrangements (collectively, "Benefit Plan Investors") or (ii) the entity is an "operating company" (as defined in the Plan Asset Regulations). The Plan Asset Regulations provide that when calculating the percentage of the total value of each class of equity interest that is held by Benefit Plan Investors, any equity interests held by persons (other than Benefit Plan Investors) with discretionary authority or control over the assets of the entity or who provide investment advice for a fee (direct or indirect) with respect to such assets, and any affiliates thereof, are disregarded.

The Notes are not expected to be "publicly-offered securities" within the meaning of the Plan Asset Regulations or securities issued by an investment company registered Investment Company Act. In addition, no assurance can be given that the Notes would be treated as debt and not equity interests of the Issuer for purposes of the Plan Asset Regulations or that the Issuer would be considered an operating company. Accordingly, the Issuer intends that investment in the Notes by Benefit Plan Investors be restricted so that none of the assets of the Issuer would be deemed to be "plan assets" for purposes of the Plan Asset Regulation.

Each purchaser and/or holder and each transferee of the Notes will be deemed to represent and warrant that either (i) at the time of acquisition and throughout the period it holds the Notes, it is not and will not be, and is not and will not be acting on behalf of or investing the assets of, a Benefit Plan Investor or (ii) it is an insurance company general account and, at the time of acquisition and throughout the period it holds the Notes, (A) its purchase, holding and disposition of the Notes is not and will not be prohibited under Section 406 of ERISA or Section 4975 of the Code by reason of PTCE 95-60, (B) less than 25% of the assets of such general account are and will be (or represent) assets of Benefit Plan Investors and (C) it is not and will not be a person who has discretionary authority or control with respect to any assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to such assets, or an affiliate of such a person, and any Notes held by such purchaser, holder or transferee will not otherwise be disregarded for purposes of calculations under the Plan Asset Regulations. Each purchaser and/or holder and each transferee of the Notes will also be deemed to represent and warrant that either (i) at the time of acquisition and throughout the period it holds the Notes, it is not and will not be, and is not and will not be acting on behalf of or investing the assets of, a Plan that is subject to any Similar Law or (ii) its purchase, holding and disposition of the Notes will not violate any Similar Law or subject the Issuer or any persons responsible for the management of any assets of the Issuer to any requirements under any Similar Law.

Consultation with Counsel

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

The sale of Notes to a Plan is in no respect a representation by the Issuer, the Initial Purchasers or any other person that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan or that such an investment is appropriate for Plans generally or for any particular Plan.

PLAN OF DISTRIBUTION

Subject to the terms and conditions contained in the purchase agreement dated September 21, 2012, or the purchase agreement, among us and the Initial Purchasers, we have agreed to sell, and the Initial Purchasers have agreed, severally and not jointly, subject to certain conditions, to purchase, the following principal amount of Notes:

Initial Purchasers	Principal Amount
BB Securities Limited	$158,400,000
Banco Bradesco BBI S.A.	$158,400,000
Banco BTG Pactual S.A.—Cayman Islands Branch(1)	$158,400,000
Citigroup Global Markets Inc.	$158,400,000
Deutsche Bank Securities Inc.	$158,400,000
CITIC Securities Corporate Finance (HK) Limited	$8,000,000
Total	**$800,000,000**

(1) Includes Regulation S Notes only.

The purchase agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is subject to the conditions specified in the purchase agreement, including the delivery of legal opinions by their counsel. Subject to the terms and conditions of the purchase agreement, the Initial Purchasers have agreed severally, and not jointly, to purchase all of the Notes sold under the purchase agreement if any such notes are not purchased. In the purchase agreement, subject to the conditions thereof, the Initial Purchasers have agreed to purchase the Notes at a discount. We have been advised by the Initial Purchasers that they propose to offer and sell the Notes initially to investors at the offering price set forth on the cover page of this Offering Memorandum and that after the initial offering, the price to investors may be changed.

The purchase agreement provides that we will indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless they are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Transfer Restrictions."

The Initial Purchasers have agreed that, except as permitted by the purchase agreement, they will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the original issuance date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, other than in accordance with Rule 144A, and they will send to each distributor, dealer or other person receiving a selling concession or similar fee to which they sell Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until the expiration of the 40-day restricted period referred to above, an offer or sale of Notes within the United States by a dealer (whether or not it is participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Prior to this offering, there has been no established market for the Notes. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF, which is not a regulated market within the meaning of the MIFD Directive. We have been advised by the Initial Purchasers that they currently intend to make a market in the Notes as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time at the sole discretion of the Initial Purchasers. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you as to the liquidity of, or the development or continuation of trading markets for, the Notes.

In connection with this offering, the Initial Purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may bid for and purchase Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. In addition, if the Initial Purchasers create a short position in the Notes in connection with the offering by selling more Notes than are listed on the cover page of this Offering Memorandum, then the Initial Purchasers may reduce that short position by purchasing Notes in the open market. The Initial Purchasers may also impose penalty bids, which would permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by Initial Purchasers are purchased in a covering transaction to cover short positions. In general, purchases of a security for the purpose of stabilizing or reducing a short position could cause the price of that security to be higher than it might otherwise have been in the absence of those purchases.

No action has been or will be taken in any country or jurisdiction by us or the Initial Purchasers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Memorandum comes are required by us and the Initial Purchasers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Initial purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

BB Securities Limited is not a broker-dealer registered with the SEC and therefore may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Limited intends to effect sales of the Notes in the United States, BB Securities Limited will do so only through Banco do Brasil Securities LLC, its selling agent, or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the Notes in the United States of America. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC, and therefore may not make sales of any Notes in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

Banco BTG Pactual S.A.—Cayman Islands Branch will act as joint bookrunner in this offering together with BB Securities Limited, Banco Bradesco BBI S.A., Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. Banco BTG Pactual S.A.—Cayman Islands Branch is not a broker-dealer registered with the SEC and will participate only in the offering of Regulation S Notes outside of the United States.

CITIC Securities Corporate Finance (HK) Limited is not a U.S. registered broker-dealer and, to the extent that it intends to effect any sales of the securities in the United States, it will do so through one or more U.S. registered broker-dealers.

The business address of (i) BB Securities Limited is 105-108 Old Broad Street, 4th Floor - Pinners Hall, ECN2N 1ER, London – United Kingdom; (ii) Banco Bradesco BBI S.A. is Avenida Paulista 1450, 8th Floor, São Paulo – SP, Brazil; (iii) Banco BTG Pactual S.A.—Cayman Islands Branch is Butterfield House, 68 Fort Street, Grand Cayman, Cayman Islands; (iv) Citigroup Global Markets Inc. 388 Greenwich Street, New York, NY 10013, United States of America; (v) Deutsche Bank Securities Inc. is 60 Wall Street, New York, New York 10005, United States of America; and (vi) CITIC Securities Corporate Finance (HK) Limited is 26/F CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

Relationships with the Initial Purchasers

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, the Initial Purchasers and their affiliates have in the past engaged, and may in the future, from time to time, engage in, additional commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with us or any parties related to us, in respect of which they have and may in the future receive customary fees and commissions. As a result of these transactions, these parties may have interests that may not be aligned, or could possibly conflict, with the interests of investors and us.

In the ordinary course of their various business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of us. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the offering of the Notes, Deutsche Bank Trustee Company Americas Deutsche Bank Luxembourg S.A., each an affiliate of Deutsche Bank Securities Inc., are acting as (i) trustee, registrar, paying agent and transfer agent and (ii) Luxembourg transfer agent and paying agent.

Additionally, Banco BTG Pactual is also acting as an initial purchaser in this offering.

Purchase of the Notes by Senior Management

Certain members of our Senior Management, acting in their personal capacity, have placed orders in the bookbuilding process of this offering.

Selling Restrictions

Selling restrictions in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Selling restrictions in the United Kingdom

Each Initial Purchaser has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Selling Restrictions in Hong Kong

Each of the initial purchasers has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance - 197 - (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Selling Restrictions in Singapore

The Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore "SFA," and accordingly, the initial purchasers may not offer nor sell the Notes pursuant to an offering nor make the Notes the subject of an invitation for subscription or purchase, nor will the initial purchasers circulate or distribute this Offering Memorandum or and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; Chapter 289 (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the Notes should note that any subsequent sale of the Notes acquired pursuant to an offer in this Offering Memorandum made under exemptions (a) or (b) above within a period of six months from the date of initial acquisition is restricted to (i) institutional investors (as defined in Section 4A of the SFA), (ii) relevant persons as defined in Section 275(2) of the SFA, and (iii) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Selling Restrictions in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the ''Financial Instruments and Exchange Law'') and each initial purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Selling Restrictions in Bahrain

This Offering Memorandum does not, and is not intended to, constitute a public offer, sale or delivery of notes in Bahrain or an invitation or an offer of notes in Bahrain, and should not be construed as such.

This Offering Memorandum is being issued to a limited number of institutional/sophisticated investors: (i) upon their request and/or confirmation that they understand, acknowledge and agree that this Offering Memorandum is strictly private and the placement and the Notes have not been reviewed, deposited, approved, licensed or registered by or with any governmental authority or agency in Bahrain, nor have the initial purchasers received authorization or licensing from any such governmental authority or agency in Bahrain to market or sell any Notes within Bahrain, and (ii) on the condition that this Offering Memorandum will not and must not be provided to any person other than the original recipient, is not for general circulation in Bahrain and may not be reproduced or used for any other purpose. The Notes may not be offered or sold directly or indirectly to the public in Bahrain.

No marketing of any Notes has been or will be made from within Bahrain and no subscription to any Notes may or will be consummated within Bahrain. The initial purchasers are not licensed brokers or dealers or investment advisors under the laws applicable in Bahrain, and do not advise individuals resident in Bahrain as to the appropriateness of investing in or purchasing or selling notes or other financial products. Nothing contained in this Offering Memorandum is intended to constitute Bahrain investment, legal, tax, accounting or other professional advice. This offering memorandum is for your information only and nothing in this Offering Memorandum is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional advisor for specific advice rendered on the basis of your situation.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of our Notes.

No U.S. Registration, Investment Company Act and Other Restrictions

We are not registered as an investment company under the Investment Company Act, and our Notes have not been registered under the Securities Act. They may not be offered or sold within the United States except in a transaction that:

- is in compliance with the registration requirements of the Securities Act and all applicable securities laws in the states of the United States;
- is exempt from, or is not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States; and
- is neither prohibited by the Investment Company Act nor would require our company to register as an investment company under the Investment Company Act.

Interests in any Restricted Global Notes were offered and sold initially only:

- inside the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act) and to a limited number of institutional investors that are accredited investors (as defined in Rule 501 under the Securities Act) that are, in each case, also qualified purchasers (as defined in Section 2(a)(51) of the Investment Company Act) in compliance with the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act, and who have submitted orders to acquire Restricted Global Notes in an amount of not less than US$250,000 as reasonably determined by the international purchasers or as certified by the purchasers of Restricted Global Notes.

Interests in any Unrestricted Global Notes were offered and sold initially only:

- outside the United States to persons in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act (and no such transaction may involve a sale of the Unrestricted Global Notes to or for the account or benefit of a U.S. person as defined in Regulation S).

We are not obligated to file a registration statement with respect to our Notes, and we may not file such a registration statement.

Each purchaser of Notes may be required, at the Initial Purchaser's exclusive discretion, to certify in any manner acceptable to the Initial Purchasers that such purchaser is eligible to purchase the Notes being offered in this offering.

U.S. Investment Company Act

In reliance on Section 3(c)(7) under the U.S. Investment Company Act, or Section 3(c)(7), we have not registered as an investment company pursuant to the U.S. Investment Company Act. To rely on Section 3(c)(7), we must have a "reasonable belief" that all purchasers of the Restricted Global Notes (including the Initial Purchasers and subsequent transferees) that are located in the United States or that are U.S. persons as defined for purposes of Regulation S are "qualified purchasers" within the meaning of Section 2(a)(51) of the U.S. Investment Company Act at the time of their purchase of such securities. We will establish a reasonable belief for purposes of Section 3(c)(7) based upon (i) the representations deemed made by the purchasers of the securities as set forth in these transfer restrictions and (ii) the procedures and restrictions referred to below.

Deemed Representations of U.S. Purchasers

Each purchaser of our Restricted Global Notes in this offering, as well as any person who acquires such Restricted Global Notes in the future (each, a "purchaser"), that is in the U.S. or is a U.S. person as defined for purposes of Regulation S (including the registered holders and beneficial owners of the Restricted Global Notes) will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser (i) is a "qualified institutional buyer" as defined in Rule 144A of the Securities Act or an institutional "accredited investor" as defined in Rule 501 under the Securities Act; (ii) is aware that the sale of the Restricted Global Notes to it is being made in reliance on an exemption from the registration requirements of the Securities Act and (iii) is acquiring such Restricted Global Notes for its own account or the account of one or more qualified institutional buyers or institutional accredited investors;

2. the purchaser (i) is a "qualified purchaser" within the meaning of Section 2(a)(51) of the U.S. Investment Company Act and the rules and regulations thereunder, which term generally includes (a) any natural person (including any person who holds a joint, community property, or other similar shared ownership interest in an issuer that is exempt from registration under Section 3(c)(7) of the Investment Company Act with that person's qualified purchaser spouse) who owns not less than US$5,000,000 in investments, as defined by the SEC; (b) any company that owns not less than US$5,000,000 in investments and that is owned directly or indirectly by or for two or more natural persons who are related as siblings or spouse (including former spouses), or direct lineal descendants by birth or adoption, spouses of such persons, the estates of such persons, or foundations, charitable organizations, or trusts established by or for the benefit of such persons; (c) any trust that is not covered by clause (b) and that was not formed for the specific purpose of acquiring the securities offered, as to which the trustee or other person authorized to make decisions with respect to the trust, and each settlor or other person who has contributed assets to the trust, is a person described in clause (a), (b), or (d); or (d) any person, acting for its own account or the accounts of other qualified purchasers, who in the aggregate owns and invests on a discretionary basis, not less than US$25,000,000 in investments; (ii) is aware that we will not be registered under the U.S. Investment Company Act in reliance on the exemption set forth in Section 3(c)(7) thereof and that the Restricted Global Notes have not been and will not be registered under the Securities Act and (iii) is acquiring such Restricted Global Notes for its own account or the account of one or more qualified purchasers as to which the purchaser exercises sole investment discretion, as the case may be;

3. the purchaser is not a broker-dealer that owns and invests on a discretionary basis less than US$25,000,000 in securities of unaffiliated issuers;

4. either (i) the purchaser is not, and is not acting on behalf of or investing the assets of, a plan, individual retirement account or other arrangement that is subject to Section 4975 of the Code, and entities whose underlying assets are deemed to include "plan assets" of any such plan, account or arrangement (each referred to as a "Benefit Plan Investor") or (ii) the purchaser is an insurance company general account and, at the time of acquisition and throughout the period it holds the Restricted Global Notes, (A) its purchase, holding and disposition of the Restricted Global Notes are not, and will not, be prohibited under Section 406 of ERISA or Section 4975 of the Code by reason of U.S. Department of Labor Prohibited Transaction Class Exemption 95-60, (B) less than 25% of the assets of such general account are and will be (or represent) assets of Benefit Plan Investors and (C) it is not and will not be a person who has discretionary authority or control with respect to any assets of our assets, a person who provides investment advice for a fee (direct or indirect) with respect to such assets, or an affiliate of such a person, and any Restricted Global Notes held by such purchaser will not otherwise be disregarded for purposes of calculations regulations promulgated by the U.S. Department of Labor, as modified by Section 3(42) of ERISA;

5. either (i) the purchaser is not, and is not acting on behalf of or investing the assets of, a "governmental plan" (within the meaning of Section 3(32) of ERISA), "church plan" (within the meaning of Section 3(33) of ERISA) or non-U.S. plan (as described in Section 4(b) of ERISA) that is subject to any federal, state, local or non-U.S. laws or regulations that are, to a material extent, similar to the provisions of Title I of ERISA or Section 4975 of the Code (referred to as a "Similar Law") or (ii) the purchaser's purchase, holding and disposition of the Restricted Global Notes will not violate any Similar Law or subject the issuers or any persons responsible for the management of any assets of the issuers to any requirements under any Similar Law;

6. the purchaser is not purchasing the Restricted Global Notes with a view to the resale, distribution or other disposition thereof in violation of the Securities Act;

7. the purchaser was not formed for the purpose of investing in us;

8. the purchaser understands that we may receive a list of participants holding positions in our securities;

9. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving Restricted Global Notes that have the purpose or effect of evading the applicable restrictions on resale;

10. neither the purchaser nor any account for which the purchaser is acquiring the Restricted Global Notes will hold such Restricted Global Notes for the benefit of any other person and the purchaser and each such account will be the sole beneficial owners thereof for all purposes and will not sell participation interests in the Restricted Global Notes or enter into any other arrangement pursuant to which any other person will be entitled to an interest in the distributions on the Restricted Global Notes;

11. the Restricted Global Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Restricted Global Notes have not been and will not be registered under the Securities Act and we have not been and will not be registered under the U.S. Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Global Notes, such Restricted Global Notes may be offered, resold, pledged or otherwise transferred only (i) (A) to a person who the purchaser reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) or an institutional accredited investor (as defined in Rule 501 under the Securities Act) that are, in each case, also a qualified purchaser (as defined in the Investment Company Act) in a transaction exempted from registration under the Securities Act, or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined in Regulation S) and (ii) in accordance with all applicable securities laws of the States of the United States; and

12. in the event that we or the transfer agent determine in good faith that a U.S. holder or beneficial owner of the Restricted Global Notes is in breach, at the time given, of any of the representations or agreements set forth above, we or the transfer agent may require such holder or beneficial owner to transfer such Restricted Global Notes or beneficial interests therein to a transferee acceptable to us as set forth under "—Forced Sale of Securities;" pending such transfer, the U.S. holder will be deemed not to be the holder of such Restricted Global Notes for any purpose, and such U.S. holder will be deemed to have no interest whatsoever in such Restricted Global Notes except as otherwise required to redeem or sell its interest therein.

Deemed Representations of Non-U.S. Purchasers

Each purchaser (as defined above) of our Unrestricted Global Notes in this offering, as well as any person who acquires such Unrestricted Global Notes in the future that is outside the U.S. and is a non-U.S. person as defined in Regulation S (including the registered holders and beneficial owners of the Unrestricted Global Notes), will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser is a person who, at the time the buy order for the Unrestricted Global Notes was originated, was outside the United States and was not a "U.S. person" (and was not purchasing for the account or benefit of a "U.S. person") as defined in Regulation S;

2. the purchaser understands that we may receive a list of participants holding positions in our securities;

3. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving Unrestricted Global Notes that have the purpose or effect of evading the applicable restrictions on resale;

4. the Unrestricted Global Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Unrestricted Global Notes have not been and will not be registered under the Securities Act and we have not been and will not be registered under the U.S. Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Unrestricted Global Notes, such Unrestricted Global Notes may be offered, resold, pledged or otherwise transferred only (i) (A) to a person who the purchaser reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) or an institutional accredited investor (as defined in Rule 501 under the Securities Act) that are, in each case, also a qualified purchaser in a transaction exempt from registration under the Securities Act, or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined for purposes of Regulation S) and (ii) in accordance with all applicable securities laws of the States of the United States; and

5. in the event that we or the transfer agent determine in good faith that a U.S. holder or beneficial owner of the Unrestricted Global Notes is in breach of any of the representations or agreements set forth above, we or the transfer agent may require such holder or beneficial owner to transfer such Unrestricted Global Notes or beneficial interests therein to a transferee acceptable to us, as set forth under "—Forced Sale of Securities;" pending such transfer, the holder will be deemed not to be the holder of such Unrestricted Global Notes for any purpose, and such holder will be deemed to have no interest whatsoever in such Unrestricted Global Notes except as otherwise required to redeem or sell its interest therein.

Legends

Each purchaser (including the registered holders and beneficial owners of the Notes as they exist from time to time, including as a result of transfers, in each case as of the time of purchase) of Restricted Global Notes within the United States pursuant to Rule 144A and Section 3(c)(7) by accepting delivery of this Offering Memorandum, understands that such Restricted Global Notes, unless we determine otherwise in compliance with applicable law, will bear a legend substantially to the following effect:

"THE ISSUER OF THIS NOTE IS NOT, AND WILL NOT BE, REGISTERED AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR THE INVESTMENT COMPANY ACT, AND THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR RULE 144A, TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS BOTH A QUALIFIED INSTITUTIONAL BUYER, OR A QIB, WITHIN THE MEANING OF RULE 144A, AND A QUALIFIED PURCHASER (A "QP"), WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT THAT (I) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (II) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (III) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QIB THAT IS A QP, IN A PRINCIPAL AMOUNT OF NOT LESS THAN THE MINIMUM DENOMINATION FOR THE NOTES FOR THE PURCHASER AND FOR EACH SUCH ACCOUNT, (IV) WAS NOT FORMED FOR PURPOSES OF INVESTING IN US, AND (V) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE AND (B) IN

ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION.

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO US, THE TRUSTEE OR ANY INTERMEDIARY. WE HAVE THE RIGHT, UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH OWNER. WE HAVE THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THE NOTES TO A U.S. PERSON WHO IS NOT A QIB AND A QP.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL, CHURCH OR OTHER BENEFIT PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE, OR A SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW."

THE ISSUER WILL NOT REMOVE THE FOREGOING LEGEND; HOWEVER, IF AND WHEN COUNSEL TO THE ISSUER DELIVERS AN OPINION TO THE ISSUER TO THE EFFECT THAT IT NO LONGER NEEDS TO RELY ON SECTION 3(C)(7), THEN THE LEGEND MAY BE MODIFIED TO REMOVE THE QP RESTRICTIONS.

Each purchaser of Unrestricted Global Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Unrestricted Global Notes in resales, by accepting delivery of this Offering Memorandum and the Notes, understands that such Unrestricted Global Notes, unless otherwise determined by us in accordance with applicable law,will bear a legend substantially to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (I) EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL, CHURCH OR OTHER BENEFIT PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE, OR A SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBIT TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW, AND (II) IT IS A QUALIFIED PURCHASER (A "QP") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR IT IS PURCHASING OR HOLDING THE NOTE FOR THE ACCOUNTS OF A QP."

Forced Sale of Securities

The purchaser agrees that in the event that we or the transfer agent determine in good faith that a holder or beneficial owner of the Notes is in breach, at the time given, of any of the representations or agreements set forth above, we or the transfer agent, as the case may be, may require such acquirer or beneficial owner to transfer such Notes or beneficial interests therein to a transferee acceptable to us who is able to and who does make all of the representations and agreements set forth in these transfer restrictions.

If a U.S. beneficial owner of Restricted Global Notes who is required to be a qualified purchaser within the meaning of Section 2(a)(51) under the U.S. Investment Company Act is at any time not a qualified purchaser, we may (i) require such beneficial owner to sell its Restricted Global Notes to a person who is a qualified purchaser and who is otherwise qualified to purchase such Restricted Global Notes in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Restricted Global Notes to us or an affiliate thereof at a price equal to the purchase price paid by the holder (less all interest and principal payments received by the holder of the Note) for such Restricted Global Notes.

If a non-U.S. beneficial owner of Unrestricted Global Notes who is required to be outside the U.S. and required to not be a "U.S. person" as defined in Regulation S (including the registered holders and beneficial owners of the Unrestricted Global Notes) is at any point considered to be a "U.S. person," we may (i) require such beneficial owner to sell its Unrestricted Global Notes to a person who is not a "U.S. Person" and who is otherwise qualified to purchase such Unrestricted Global Notes) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined for purposes of Regulation S) or (ii) require the beneficial owner to sell such Unrestricted Global Notes to us or an affiliate thereof at a price equal to the purchase price paid by the holder (less all interest and principal payments received by the holder of the Note) for such Unrestricted Global Notes.

Pending such transfer, such U.S. holder will be deemed not to be the holder of such Notes for any purpose, including but not limited to receipt of coupon payments on such Notes, and such U.S. holder will be deemed to have no interest whatsoever in such Notes except as otherwise required to sell its interest therein as described in this paragraph.

INDEPENDENT AUDITORS

The consolidated financial statements of Banco BTG Pactual S.A. as of and for the years ended December 31, 2009, 2010 and 2011 included elsewhere in this Offering Memorandum have been audited by Ernst & Young Terco Auditores Independentes S.S., independent auditors, as stated in their reports appearing herein.

With respect to the unaudited interim consolidated financial statements of Banco BTG Pactual S.A. as of June 30, 2012 and for the six month periods ended June 30, 2012 and 2011, included elsewhere in this Offering Memorandum, Ernst & Young Terco Auditores Independentes S.S. have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 8, 2012 appearing herein states that they did not audit and did not express an opinion on those unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review conducted.

LEGAL MATTERS

Skadden, Arps, Slate, Meagher & Flom LLP, our U.S. counsel, Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, and Ogier, our special Cayman Islands counsel, will pass on the validity of the Notes for us. Shearman & Sterling LLP, U.S. counsel to the Initial Purchasers, and Lefosse Advogados, Brazilian counsel to the Initial Purchasers, will pass on the validity of the Notes for the Initial Purchasers.

GENERAL INFORMATION

The Global Notes representing the Notes have been accepted for clearance through DTC, Euroclear and Clearstream Luxembourg. The CUSIP, ISIN and common codes for the Notes are as follows:

144A Note CUSIP	05890B AD9
144A Note ISIN	US05890BAD91
144A Note Common Code	083607408
Regulation S Note CUSIP	P07790 AD3
Regulation S Note ISIN	USP07790AD31
Regulation S Note Common Code	083591854

We are a corporation *(sociedade anônima)* duly incorporated on January 18, 1979 under the laws of Brazil with an indefinite term of duration. Our registered office in Brazil and principal administrative establishment is located at Praia de Botafogo, 501, 5 º e 6º andares, Rio de Janeiro, RJ–22250-040, Brazil. The registered office of our Cayman Islands Branch is located at PO Box 705 – Butterfield House, 68 Fort Street, George Town KY1-1107, Cayman Islands. None of our directors and executive officers are residents of the United States, nor are we a resident of the United States, and all or a substantial portion of our assets and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon us or such persons, or to enforce against any of them in United States courts judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

Copies of our latest audited annual financial statements and unaudited quarterly financial statements (including the financial statements as of and for the years ended December 31, 2010 and 2011 prepared in accordance with IFRS) may be obtained during normal business hours at our executive offices, the offices of the Trustee and any paying agent, including the Luxembourg paying agent and transfer agent at our and their respective addresses listed on the back cover of this Offering Memorandum. Copies of our bylaws (*estatuto social*), as well as the Indenture (including forms of the Notes), will be available during normal business hours for inspection at our executive offices, the offices of the Trustee and any other paying agent, including the Luxembourg paying agent and transfer agent at our and their respective addresses listed on the back cover of this Offering Memorandum.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial position since June 30, 2012, the date of the latest unaudited financial statements included in this offering memorandum.

Except as disclosed in this Offering Memorandum, we are not or have not been involved in any governmental, legal or arbitration proceedings during the 12-month period immediately preceding the date of this Offering Memorandum that had or may reasonably be expected to have any material adverse effect on our financial position and results of operations.

Application has been made to admit the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF.

The creation and issuance of the Notes were authorized pursuant to written resolutions of our board of directors, dated September 18, 2012.

To the best of our knowledge, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

ANNEX A: PRINCIPAL DIFFERENCES BETWEEN BRAZILIAN GAAP AND IFRS

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

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

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

There are certain differences between Accounting Practices Adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS (which incorporates all existing International Financial Reporting Standards, IAS, as well as IFRIC and SIC interpretations) which may be relevant to the financial information presented herein. This section makes no attempt to identify or quantify the impact of these differences, nor can we give you any assurances that all differences have been identified. The following is a summary of certain of those differences; however, this summary does not purport to be complete and should not be construed as exhaustive.

In reading this summary, prospective investors in the Notes should also have regard to the considerations:

- This summary includes differences between accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS as of December 31, 2011. Differences resulting from changes in accounting standards or from transaction or events that had occurred prior to December 31, 2011 have not been taken into account in this summary.
- Differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS resulting from future changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and no attempt has been made to identify any future events, ongoing work and decisions of the regulatory bodies that promulgate accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS that could affect future comparisons among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS. The current differences disclosed in this summary are not intended to be complete and are subject to, and qualified in their entirety by, reference to the respective pronouncements of Brazilian professional accounting bodies and those of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.
- As differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS may be significant to the financial position or results of operations of the Bank prospective investors unfamiliar with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank should consult their own professional advisors for an understanding of the differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS and how those differences might impact the financial information presented herein.
- Unlike IFRS, under accounting practices adopted in Brazil applicable to institutions accredited by the

Central Bank there are no specific principles relating to certain matters such as business combinations and financial instruments.

This summary does not address differences related solely to the classification of amounts in the financial statements or footnote disclosures.

Foreign Currency Translation

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, the financial statements of subsidiaries operating in non highly inflationary currency environments are translated using the current exchange rate. Financial statements presented in highly inflationary currency environments are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statement.

Under IFRS, when translating financial statements into a different presentation currency (for example, for consolidation purposes), IFRS requires the assets and liabilities to be translated using the closing (year end) rate. Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. Any translation differences are reported in equity (other comprehensive income).

Consolidation and Proportional Consolidation

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, financial statements should consolidate the following entities: (a) entities on which the company has voting rights that provides it with the ability to have the majority on the social decisions and to elect the majority of the members of the Board; (b) overseas branches; and (c) companies under common control or controlled by shareholders agreements irrespective of the participation in voting stock. Joint ventures, including investees in which the company exerts significant influence through its participation in a shareholders agreement in which such group controls the investee, could be accounted for under the proportional consolidation method.

Under IFRS, the usual condition for consolidation is to have control, which is generally presumed to exist when the Parent owns, directly or indirectly through subsidiaries more than half of the voting power of the entity. The standard also requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.

Under IFRS, joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions regarding the activities require unanimous consent of the members of the joint venture. Joint ventures are either carried at the equity method or proportionate consolidated.

Under IFRS, specific guidance is provided with respect to the consolidation of SPEs. A SPE may be created to accomplish a narrow and well defined objective. Such a special purpose entity may take the form of a corporation, trust, partnership or unincorporated entity and are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management.

The sponsor frequently transfers assets to the SPE, obtains rights to use assets held by the SPE or performs services for the SPE, while other parties may provide funding. An entity that engages in transactions with the SPE (frequently creator or sponsor) may in substance control the SPE.

SPEs shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

Business Combinations, Purchase Accounting and Goodwill

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, combinations are not specifically addressed by accounting pronouncements. Application of the purchase method is based on book values. Goodwill or negative goodwill recorded on the acquisition of a company is calculated as the difference between the cost of acquisition and the net book value. Goodwill is subsequently amortized to income over a period not to exceed 10 years. Negative goodwill may be recorded in income over a period consistent with the period over which the investee is expected to incur losses.

Under IFRS 3 (Revised), Business Combinations requires, among other things, that all business combinations, except those involving entities under common control be accounted for by a single method – the acquisition method.

Under IFRS 3 (Revised), the acquiring company records identifiable assets and liabilities acquired at their fair values. The shares issued in exchange for shares of other companies are accounted for at fair value based on the market price. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

In addition, IFRS 3 (Revised) sets out more detailed guidelines as to the recognition of "intangible assets." Under IFRS 3 and IAS 38, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are no longer amortized. Under IFRS 3, the amount of goodwill will be evaluated for impairment annually, and in the case of impairment its recorded value will be adjusted accordingly. If assets other than cash are distributed as part of the purchase price, such assets should be valued at fair value.

Under IFRS 3 (Revised) negative goodwill will be recognized as a gain in the statement of operations. Finite lived intangible assets are generally amortized on a straight line basis over the estimated period benefited. The client deposit and relationship portfolios intangible asset is recorded and amortized over a period in which the asset is expected to contribute directly or indirectly to the future cash flows.

Transfer of Financial Assets

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

Under IFRS, financial assets can be derecognized in full or partially but only when the necessary conditions are met. Derecognition conditions depend on the following factors:

- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed;
- substantially all risks and rewards are transferred and the following conditions are met:
  - (i) no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
  - (ii) the obligation to pass through cash flows; and
  - (iii) obligation to remit any cash flows without material delay; or

- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

Accounting for Guarantees by a Guarantor

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, guarantees granted to third parties are recorded in memorandum accounts. When fees are charged for issuing guarantees, the fee is recognized in income over the period of the guarantee. When the guaranteed party has not honored its commitments and the guarantor should assume a liability, a credit is recognized against the guaranteed party representing the right to seek reimbursement for such party with recognition of the related allowance for losses when considered appropriate.

Under IFRS, certain financial guarantees may be accounted for as insurance contracts if certain conditions are met. Otherwise, the guidance in IAS 39 applies: (i) record guarantee contracts at fair value upon initial recognition and (ii) subsequent measurement of the higher of the amount of expenditure needed to settle the obligation (measured under IAS 37) and the amount initially recognized less cumulative amortization, when appropriate, under IAS 18.

Marketable Securities

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, marketable securities are classified based on the investment strategy of the financial institution as either trading securities, available for sale or held to maturity and defines the recognition of the fair market value of such securities as the basis for its presentation in the financial statements, except in the case where the investment strategy is to hold the investment until maturity. Recognition of changes in fair market value for trading securities is in income, while for available for sale securities is directly in shareholders' equity. The rules to account for securities are stated more generally and are less comprehensive than the standards to account for securities under IFRS.

Under IFRS, financial assets including debt and equity securities can be categorized and accounted for as follows:

- financial assets at fair value through profit or loss including both financial assets held for trading and any financial assets designated within this category at their inception;

- held to maturity investments held with a positive intent and ability to be held to maturity and are recorded at amortized cost. Equity securities cannot be classified as held to maturity investments;

- loans and receivables that correspond to financial assets with fixed or determinable payments not quoted in an active market and are measured at amortized costs; and

- available for sale financial assets including debt and equity securities designated as available for sale, except those equity securities classified as held for trading and those not covered in the above categories which are measured at fair value. Changes in fair value are recognized in equity and recognized in the statement of income when realized.

Comprehensive Income

Accounting Practices Adopted in Brazil do not have the concept of comprehensive income. Also, as under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, statutory reserves are required to appropriate 5% of the annual local currency earnings, after absorbing accumulated losses, to a legal reserve, which is restricted as to distribution. The reserve may be used to increase capital or absorb losses, but may not be distributed as dividends. Any income remaining after the distribution of dividends on the statutory records and appropriations to statutory reserves is transferred to the reserve for future investments. Such reserve may be distributed in the form of dividends upon approval of the shareholders. There are no similar provisions for IFRS.

Under IFRS, a statement of recognized income and expenses can be presented including net income as well as other items of income and expense recognized directly in equity such as: (i) fair value gains (losses) on lands and buildings, intangible assets, available for sale investments and certain financial instruments, (ii) foreign exchange translation differences, (iii) the cumulative effect of a change in accounting policy, (iv) change in fair value on certain financial instruments if designated as cash flow hedges, and (v) actuarial gains and losses on defined benefit plans recognized directly in equity.

Financial Derivative Instruments

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, for periods from June 30, 2002, the accounting principles prescribed by the Brazilian Corporate Law specifically applicable to accounting and reporting for marketable and equity securities and derivative financial instruments have been amended by accounting practices established by the Central Bank for all financial institutions. According to the accounting principles established by the Central Bank, derivative financial instruments are classified based on management's intention to use them for hedging or non hedging purposes.

Transactions involving derivative financial instruments to meet customer needs or for own purposes that did not meet hedging accounting criteria established by the Central Bank and primary derivatives used to manage the overall exposures are accounted for at fair value with unrealized gains and losses recognized currently in earnings.

Derivative financial instruments designed for hedging or to modify characteristics of assets or liabilities and (i) highly correlated with respect to changes in fair value in relation to the fair value of the item being hedged, both at the inception date and over the life of the contract and (ii) effective at reducing the risk associated with the exposure being hedged, are classified as hedges as follows:

- *Fair value hedge.* The financial assets and liabilities and the related derivative financial instruments are accounted for at fair value and offsetting gains or losses recognized currently in earnings; and

- *Cash flow hedge*. The effective hedge portion of the derivatives is accounted for at fair value and unrealized gains and losses recorded as a separate component of shareholders' equity, net of applicable taxes. The non effective hedge portion is recognized currently in earnings.

IAS 39 "Financial Instruments: Recognition and Measurement" requires that a company recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income.

Certain robust conditions including specified documentation requirements must be met in order to designate a derivative as a hedge. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either: (i) offset against the change in fair value of the hedged asset, liability or firm commitment through income; or (ii) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income.

Revaluation of Property, Plant and Equipment

Revaluations may be recorded under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank providing certain formalities are complied with. The revaluation increment, normally net of deferred tax effects, is credited to a reserve account in shareholders' equity. As from July 1, 1995 companies may opt to carry property, plant and equipment at cost, monetarily adjusted up to December 31, 1995, or at appraised values, in which case the revaluations must be performed at least every four years and should not result in an amount higher than the value expected to be recovered through future operations. Deferred taxes must be recognized, on revaluation increments as from July 1, 1995. Amortization of the asset revaluation increments are charged to income and an offsetting portion is relieved from the revaluation reserve in shareholders' equity and transferred to retained earnings as the related assets are depreciated or upon disposal.

Under IFRS, companies may use either the historical cost or carry their property, plant and equipment ("PP&E") at revalued amounts (based on fair value) as the accounting basis. When the revaluation model is selected, revaluations should be made with sufficient regularity. If an item of PP&E is revalued, the entire class of PP&E to which the asset belongs is required to be revalued. All revalued assets, including land, are subject, at the effective income tax rate from the sale of the asset, to deferred income tax. Gains and losses from the sale or disposal of assets are recorded as operating expenses.

Loan Accounting and Disclosure

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, loans are generally carried at cost. Up to March 31, 2000 when changes were introduced by the Central Bank, loans were classified as overdue or doubtful based on the extent to which they were secured and the length of time for which payments were in arrears. Specific minimum allowances were required based on whether they were unsecured or not and the time overdue. As from March 31, 2000, loans should be categorized in 9 categories and the minimum allowance is determined by applying specific percentages to the loans in each category.

Loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors, complying with the parameters established by CMN Resolution No. 2,682 of December 21, 1999, as amended, which requires periodic analysis of the portfolio and its classification, by risk level, in 9 categories between AA (minimum risk) and H (maximum risk – loss). The minimum allowance is determined by applying specific percentages to the loans in each category.

Income from credit operations overdue for more than 60 days, independently of their risk level, is only recognized as revenue when effectively received. Operations classified as level H remain in such classification for six months, after which time the loan is charged against the existing allowance and remain controlled in memorandum accounts for five years, no longer appearing in the balance sheet.

At a minimum, renegotiated loans are maintained at the same level at which they were classified prior to renegotiation. Renegotiated credit operations, which had already been charged against the allowance for loan losses and were in memorandum accounts, are classified as level H and any eventual gains resulting from the renegotiation of loans previously charged off are recognized as revenue on a cash basis.

Under IFRS, according to IAS 39 "Financial Instruments: Recognition and Measurement," loans and receivables are defined as financial assets with fixed or determinable payments not quoted in an active market. Loans and receivables are measured at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Income Taxes

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, the methods adopted for the recording of income taxes are similar to IFRS but their practical application may lead to different results in certain circumstances. The recognition of tax credits derived from temporary differences and tax losses is an area that requires considerable judgment. In general, tax credits are recognized when there is evidence of future realization in a continuous operation, potential effects of Provisional Measures enacted by the Brazilian Government are evaluated and the effects of increases in enacted tax rates on deferred taxes may not be integrally recognized if the related legislation is being questioned. On December 30, 2002, the Central Bank issued Circular No. 3,171, as amended, which revoked Circular No. 2,746, that: (i) requires specific supporting analysis to recognize deferred tax assets; (ii) requires as a condition to recognize deferred tax assets a history of profitability presenting taxable income in three out of five fiscal years (including the year being reported); and (iii) prohibits recognition of deferred tax assets if it is expected that they will be realized in more than 5 years as from the reporting date. On March 31, 2006, Resolution No. 3,355 changed the period from 5 to 10 years for the realization of such tax credit.

Under IFRS, the liability method is used to calculate the income tax provision, as specified in IAS 12, "Income Taxes." Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities to each year/period end. Deferred taxes are computed based on the enacted or substantially enacted tax rate of income taxes. Net operating loss carry forwards arising from tax losses are recognized as assets. The deferred tax asset shall be recognized to the extent that it is probable that future taxable profit will realize such deferred tax asset.

Dividends and Interest Attributable to Shareholders' Equity

Subject to certain limitations, accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank permits companies to distribute or capitalize an amount of interest on shareholders' equity based on the TJLP. Such amounts are deductible for tax purposes and are presented as a direct reduction of shareholders' equity. By the end of the year, management is required to propose payment of dividends in those years which realize a profit, unless such profit has been absorbed by any accumulated losses. The entire proposed amount is accounted for as a liability at the balance sheet date.

Under IFRS, both the minimum dividends required by law and/or included in the entity's by-laws meet the definition of present obligation and, therefore, should be accounted for at the end of the year.

Cash and Cash Equivalent

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, cash equivalents are defined in broader terms than in the context of IFRS, with no limitation of 90 days/three months original maturity. Cash equivalents in Brazil are usually readily available funds which involves cash and overnight applications and may include long term securities which can be negotiated in the secondary market.

Under IFRS, cash equivalents are defined as short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Generally, only investments with original maturities of three months or less qualify under that definition held for the purposes of meeting short term cash commitments rather than for investment or other purposes.

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Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

June 30, 2012
with independent auditor's limited review report on financial statements

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

June 30, 2012

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A free translation from Portuguese into English of Independent Auditors' Review Report on interim financial information prepared in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and in Reais

Independent auditors' review report

The Shareholders and Management of
Banco BTG Pactual S.A. e subsidiaries

We have reviewed the consolidated balance sheet of Banco BTG Pactual and its subsidiaries ("Bank") as of June 30, 2012 and the related consolidated statements of income for the three and six-month periods then ended and the statements of changes in shareholders' equity and consolidated cash flows for the six-month period then ended, and a summary of significant accounting practices and other explanatory notes.

Management is responsible for the preparation and fair presentation of this financial information in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil. Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - *Revisão de Informações Intermediárias Executada pelo Auditor da Entidade* and ISRE 2410 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the Bank's consolidated financial position as at June 30, 2012, and its consolidated financial performance for the three and six-month periods then ended and its consolidated cash flows for the six-month period then ended in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis

As of June 30, 2012, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution tax credits amounting to R$ 2,766 million, recognized substantially on the basis of financial projections and business plan reviewed and approved by its Board of Directors, which comprise a study of the current environment and future scenarios of assumptions used in these projections. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A.

Other matters

We have also reviewed the consolidated statement of value added (SVA), for the six-month period ended June 30, 2012, prepared under the responsibility of Bank's management, the presentation of which is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under the accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil. This statement have been subject to the same review procedures previously described, and based on our review nothing has come to our attention that causes us to believe that the statement of value added is not fairly presented, in all material respects, in relation to the overall interim consolidated financial statements.

Rio de Janeiro, August 08, 2012.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-6 – F – RJ

Flávio Serpejante Peppe
Contador CRC-1SP 172.167/O-6 – S – RJ

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets
As at June 30, 2012 and December 31, 2011
(In thousands of reais)

	Note	06/30/2012	12/31/2011
Assets			
Current assets		106,475,957	72,109,850
Cash at banks	6	311,557	517,305
Short-term interbank investments	7	26,870,222	19,568,249
Open market investments		25,120,029	18,624,436
Interbank deposits		1,750,193	943,813
Securities and derivative financial instruments		60,862,552	38,630,309
Own portfolio	8	18,619,582	14,157,694
Subject to repurchase agreements	8	33,907,971	21,055,304
Subject to unrestricted repurchase agreements	8	87,555	12,560
Derivative financial instruments	9	6,547,127	2,582,253
Subject to guarantees	8	1,700,317	822,498
Interbank transactions		915,852	874,879
Unsettled payables and receivables		45	-
Deposits in the Central Bank of Brazil		898,104	874,053
Correspondent banks		17,703	826
Loans	10	3,353,739	2,972,442
Loans – private sector		3,359,333	3,014,674
Transferred Loans		79,066	-
Allowance for loan losses		(84,660)	(42,232)
Other receivables		14,140,506	9,521,541
Foreign exchange portfolio	11	2,637,869	145,565
Income receivable	12	611,422	356,677
Securities trading and brokerage	11	7,181,463	4,402,981
Sundry	12	4,542,432	5,240,085
Allowance for losses on other receivables	10	(832,680)	(623,767)
Other assets		21,529	25,125
Other assets		20,179	18,591
Prepaid expenses		12,030	6,534
Provision for losses		(10,680)	-
Long-term-assets		8,176,566	8,496,825
Short-term interbank investments	7	5,474	14,787
Interbank deposits		5,474	14,787
Securities and derivative financial instruments		4,545,808	4,263,594
Own portfolio	8	-	2,375,915
Derivative financial instruments	9	566,797	475,107
Subject to repurchase agreements	8	3,409,938	-
Subject to guarantees	8	569,073	1,412,572
Interbank transactions		1,853	1,853
Restricted credits – National Housing System		1,853	1,853
Loans	10	1,832,918	1,692,638
Loans – private sector		1,856,518	1,732,754
Allowance for loan losses		(23,600)	(40,116)
Other receivables		1,790,513	2,523,953
Foreign exchange portfolio	11	-	630,610
Income receivable	12	478	34,805
Securities trading and brokerage	11	128	781
Sundry	12	1,821,638	1,897,121
Allowance for losses on other receivables	10	(31,731)	(39,364)
Permanent assets		2,881,431	1,405,334
Investments		2,725,583	1,131,018
Investments in associates and jointly controlled entities	13	2,697,842	1,125,292
Other investments		30,728	8,713
Allowance for losses		(2,987)	(2,987)
Property and equipment in use		111,860	58,403
Other property and equipment in use		160,485	100,539
Accumulated depreciation		(48,625)	(42,136)

Deferred charges	10,836	12,371
Amortization and expansion costs	28,800	28,801
Accumulated amortization	(17,964)	(16,430)
Intangible assets	33,152	203,542
Other intangible assets	117,282	208,940
Accumulated amortization	(84,130)	(5,398)
Total assets	117,533,954	82,012,009

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at June 30, 2012 and December 31, 2011
(In thousands of reais)

	Note	06/30/2012	12/31/2011
Liabilities			
Current liabilities		96,359,872	64,936,753
Deposits	14	13,903,285	11,512,454
Demand deposits		1,427,054	1,574,208
Interbank deposits		796,486	572,761
Time deposits		11,679,745	9,365,485
Open market funding	14	57,061,465	39,060,989
Own portfolio		37,127,506	22,838,450
Third-party portfolio		16,127,321	13,692,426
Free trading portfolio		3,806,638	2,530,113
Funds from securities issued and accepted	14	2,138,094	1,703,462
Real estate notes		1,682,903	1,518,581
Liabilities for foreign securities		455,191	184,881
Interbank transactions		33,288	30
Unsettled receipts and payments		33,288	30
Loans and onlending	14	1,397,999	916,591
Loans abroad		1,391,737	875,094
FINAME		6,262	41,497
Derivative financial instruments	9	6,659,694	2,523,524
Derivative financial instruments		6,659,694	2,523,524
Other liabilities		15,166,047	9,219,703
Collection and payments of tax and similar charges		6,289	2,666
Foreign exchange portfolio	11	1,994,199	224,381
Social and statutory	15	1,093,431	552,761
Tax and social security	15	311,438	238,783
Securities trading and brokerage	11	11,214,877	7,921,906
Sundry	15	545,813	279,206
Long-term liabilities		12,074,490	10,491,697
Deposits	14	2,468,264	2,698,606
Interbank deposits		27,311	3,644
Time deposits		2,440,953	2,694,962
Open market funding	14	218,239	-
Own portfolio		121,156	-
Free trading portfolio		97,083	-
Funds from securities issued and accepted	14	2,874,033	2,071,169
Real estate notes		1,847,271	1,106,410
Liabilities for foreign securities		1,026,762	964,759
Loans and onlending	14	9,311	3,125
FINAME		9,311	3,125
Derivative financial instruments	9	575,395	430,265
Derivative financial instruments		575,395	430,265
Other liabilities		5,929,248	5,288,532
Social and statutory	15	3,078	445
Tax and social security	15	583,893	521,157
Securities trading and brokerage	11	-	8,128
Subordinated debt	14	4,486,372	4,158,295
Sundry	15	855,905	600,507
Deferred income		55,021	31,590
Non-controlling interest		91,028	212,207
Shareholders' equity	18	8,953,543	6,339,762
Capital - domiciled in Brazil		4,495,259	2,132,664
Capital - domiciled Abroad		1,467,241	838,686
Capital increase		-	271,150
Income reserve		2,447,263	3,097,262
Acumulated income		543,780	-
Total Liabilities and Shareholders' equity		117,533,954	82,012,009

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income
Semester and quarters ended June 30
(In thousands of reais)

	Note	2nd Quarter 2012	2nd Quarter 2011	1st Semester 2012	1st Semester 2011
Financial income		1,983,466	1,180,876	4,357,684	2,718,593
Loans		355,825	140,636	613,170	275,705
Securities		1,766,215	948,044	3,428,373	2,181,150
Derivative financial instruments		(236,052)	70,874	152,290	220,022
Foreign Exchange		79,027	21,322	122,619	41,716
Mandatory investments		18,451	-	41,232	-
Financial expenses		(1,457,995)	(884,446)	(2,916,554)	(2,032,264)
Funding operations		(1,139,187)	(937,428)	(2,402,788)	(2,023,928)
Borrowing and onlending		(160,498)	55,973	(279,494)	4,214
Allowance for loan losses and other receivables		(158,310)	(2,991)	(234,272)	(12,550)
Gross financial income		525,471	296,430	1,441,130	686,329
Other operating income (expenses)		256,022	160,456	392,316	240,960
Income from services rendered	19	415,889	275,113	761,901	498,143
Personnel expenses		(93,780)	(63,012)	(188,740)	(125,843)
Other administrative expenses	22	(187,587)	(72,647)	(291,131)	(137,175)
Tax charges		(87,678)	(59,819)	(170,881)	(119,615)
Equity in the earnings of subsidiaries	13	247,795	28,770	268,444	28,770
Other operating income	20	100,513	75,254	212,918	128,434
Other operating expenses	21	(139,130)	(23,203)	(200,195)	(31,754)
Operating income		781,493	456,886	1,833,446	927,289
Non-operating income		1	8,054	(17)	9,210
Income before taxation and profit sharing		781,494	464,940	1,833,429	936,499
Income tax and social contribution	17	11,438	(137,602)	(296,852)	(292,299)
Provision for income tax		(91,278)	(49,169)	(202,661)	(111,716)
Provision for social contribution		(51,463)	(26,968)	(119,145)	(61,889)
Deferred tax assets		154,179	(61,465)	24,954	(118,694)
Statutory profit sharing		(270,810)	(89,794)	(590,222)	(198,367)
Non-controlling interest		(213)	-	(967)	-
Net income for the period		521,909	237,544	945,388	445,833
Interest on equity	18	(220,000)	-	(220,000)	-
Weighted average numbers of share outstanding		2,565,600,000	2,400,000,000	2,482,800,000	2,400,000,000
Net income per share - R$ - basic and dilluted		0.20	0.10	0.38	0.19

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Statements of changes in shareholders equity – Parent company

(In thousands of reais, except for dividends per share)

Balances at December 31, 2010		2,971,350							
Dividends paid (R$ 0.09 per share)	18	-							
Net income of the period		-							
Balances at June 30, 2011		2,971,350							
Balances at December 31, 2011		2,971,350							
Capital increase		2,991,150							
Net income of the period		-							
Balances at June 30, 2012		5,962,500							

Reconcilation of net income (loss) and shareholders equity of Banco BTG Pactual S.A. and subsiriaries is presented in Note 18(f).

The accompanying notes are an integral part of the financial statements

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows
Six-month period ended June 30
(In thousands of reais)

	Note	2012	2011
Operating activities			
Net income for the period		945,388	445,833
Adjusted net income		(140,725)	(21,622)
Equity in the earnings (losses) subsidiaries	13	(615,624)	(28,770)
Provision for non-permanent devaluation of investment	13	347,180	-
Goodwill amortization		116,764	-
Depreciation and amortization		10,955	7,148
Adjusted net income for the period		804,663	424,211
Increase/decrease in operational assets and liabilities			
Short-term interbank investments		2,099,271	3,850,103
Securities and derivative financial instruments		(18,752,246)	504,173
Loans		(562,505)	(1,599,249)
Other receivables and other assets		(4,707,770)	(5,152,748)
Interbank transactions		33,212	(92,462)
Other liabilities		5,857,484	9,421,377
Deferred income		23,431	9,156
Deposits		2,160,489	2,205,471
Open market funding		18,218,715	(4,157,688)
Loans and onlending		487,594	1,226,235
Cash provided by operating activities		5,662,338	6,638,579
Investing activities			
Sale of property and equipment in use		2,232	32,552
Acquisition of equity interests		(50,804)	(474)
Dividends received		27,440	-
Acquisition of property and equipment in use		(63,536)	(22,185)
Acquisition of other investments		(22,015)	-
Sale of investments		-	296
Capital increase in subsidiaries		-	(450,999)
Acquisition/Disposal of intangible assets		(5,079)	4,109
Cash used in investing activities		(111,762)	(436,701)
Financing activities			
Funds from securities issued and accepted		1,237,496	4,332,878
Capital increase due to share issuance		2,070,000	-
Non-controlling interest		34	23,534
Interest on equity		-	-
Subordinated debt		328,077	-
Dividends distributed		-	(210,000)
Cash provided by financing activities		3,635,607	4,146,412
Increase/(decrease) in cash and cash equivalents		9,186,183	10,348,290
Balance of cash and cash equivalents	24		
At the beginning of the period		12,487,417	18,925,370
At the end of the period		21,673,600	29,273,660
Increase/(decrease) in cash and cash equivalents		9,186,183	10,348,290
Noncash transactions		1,946,208	-
Capital contribution - Banco Panamericano S.A.		495,477	-
Incorporation - One Properties S.A. by BR Properties S.A.		1,450,731	-
Interest on equity	18	220,000	-
Dividends	18	181,610	-

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added
Six-month period ended June 30
(In thousands of reais)

	2012	2011
Income	4,898,019	3,310,076
Financial brokerage	4,357,684	2,718,593
Services rendered	761,901	498,143
Allowance for loan losses and other receivables	(234,272)	(12,550)
Other	12,706	105,890
Expenses	(2,682,282)	(2,019,714)
Financial brokerage	(2,682,282)	(2,019,714)
Inputs acquired from third parties	(252,220)	(118,198)
Materials, energy and other	(70,347)	(44,799)
Outsourced services	(181,873)	(73,399)
Gross value added	1,963,517	1,172,164
Depreciation and amortization	(10,955)	(7,148)
Net value added produced by the entity	1,952,562	1,165,016
Value added received through transfer	268,444	28,770
Equity in the earnings of associated companies	268,444	28,770
Value added to be distributed	2,221,006	1,193,786
Distribution of value added	(2,221,006)	(1,193,786)
Personnel	(778,962)	(324,210)
Direct compensation	(757,763)	(307,553)
Benefits	(14,941)	(10,259)
FGTS – government severance pay fund	(6,258)	(6,398)
Taxes, fees and contributions	(467,733)	(411,914)
Federal	(443,377)	(383,410)
Municipal	(24,356)	(28,504)
Remuneration of third party capital	(27,956)	(11,829)
Rent expenses	(27,956)	(11,829)
Remuneration of shareholders	(946,355)	(445,833)
Interest on equity	(220,000)	-
Dividends	(181,610)	-
Retained earnings	(543,778)	(445,833)
Non-controlling interest	(967)	-

The accompanying notes are an integral part of the financial statements

1. Operations

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating jointly with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and investment portfolios, credit, financing and investment, leasing and real estate loans.

The transactions are conducted as part of a group of institutions fully participating in the financial market, and certain transactions are intermediated by other institutions of the BTG Pactual Group.

On April 30, 2012, BTG Pactual Group completed its primary public offering (IPO), issuing 82,800,000 units at a price of R$ 31.25 (thirty-one reais and twenty five cents) per unit. In that operation, the Bank issued 248,400,000 shares, representing a capital increase by R$ 2,070 million and generating cash net of costs of commissions, fees and taxes of R$ 2,018 million.

The interim financial statements were approved by the Management in August 8, 2012.

2. Corporate reorganization

Corporate reorganization

On March 29, 2012, Saíra Diamante Empreendimentos Imobiliários S.A. ("Saíra"), Wtorre Empreendimentos Imobiliários S.A. ("Wtorre") and BR Properties S.A. ("BR Properties") approved the transaction involving successive mergers of Saíra and its jointly-controlled investee with Wtorre, One Properties S.A., into BR Properties. After the closing of the operation the bank held 28.3% of interest on BR Properties equity and measure this investment by the equity method of accounting (see Note 13).

Acquisitions

On January 31, 2012, the Bank and Banco Panamericano entered into a definitive agreement to purchase 100% of the shares of Brazilian Finance & Real Estate S.A. (BFRE), for approximately R$1.2 billion, of which R$ 940 million will be paid by Banco Panamericano and R$ 270 million will be paid by the Bank. Additionally, after the definitive agreement, and before the settlement, BFRE will be split into two companies, and the Bank will acquire one of these companies for approximately R$ 335 million, which will be used for purchase of certain real estate investment funds held by BFRE.

On February 8, 2012, the Bank announced the conclusion of the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital (Celfin), operating in Chile, Peru and Colombia. In connection with this transaction, the Bank will pay to the owners of Celfin US$ 486 million (approximately R$ 982 million) in cash, of which US$ 196 million (approximately R$ 396 million) will be used to purchase the shareholding interest of the Bank, representing 2.423% of the capital. The transaction is pending approval from the competent authorities.

On June 14, 2012 the bank announced the according of total acquisition of Bolsa y Renta in Colombia by U$ 51.9 Million (approximately R$ 104.9 Million). This transaction involves a subscription of capital from Bolsa y Renta actual shareholders of 0.25% of group BTG Pactual total capital representing U$ 32.5 million. The transaction is pending of approval by the competent authorities.

In thousands of reais

3. Presentation of the financial statements

The Bank's and its subsidiaries' financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the National Monetary Council (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE).

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires Management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions substantially relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with suspended eligibility and the provision for contingent liabilities. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inaccuracies inherent in determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

a. Consolidated financial statements

In the process consolidated financial statements were eliminating the intercompany balances of assets and liabilities, revenues, expenses and unrealized profit, and includes the portions of net income (loss) and shareholders' equity relating to non-controlling interest.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, and joint controlled subsidiaries is recognized in investments, whereas negative goodwill is recognized in deferred income.

Jointly-controlled investments are recognized by the equity method of accounting.

The subsidiaries consolidated on the Bank's financial statements, are as follows:

		Equity Interest - %	
	Country	06/30/2012	12/31/2011
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Empresa Operadora do Mercado Energético Ltda. - Coomex	Brazil	99.99	99.99
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTGP Recovery Holdings S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Saíra Diamante S.A.	Brazil	-	92.00
BTG Pactual Vivere Participações S.A.	Brazil	99.99	-
BW Properties S.A.	Brazil	67.49	-

In thousands of reais

	Country	Equity Interest - % 06/30/2012	12/31/2011
G.U.A.S.P.E S.A	Brazil	99.99	-
BTG Pactual Holding de Serguros Ltda.	Brazil	99.99	-

		Equity Interest - %	
	Country	06/30/2012	12/31/2011
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual Serviços Energéticos Ltda.- Coomex	Brazil	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	England	99.30	100.00
BTG Pactual Asset Management US, LLC	EUA	100.00	100.00
BTG Pactual US Capital, LLC	EUA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	England	100.00	100.00
Recovery do Brasil Consultoria S.A.	Brazil	100.00	50.24
FC DAS S.A.	Uruguay	100.00	100.00
BTG Pactual SEG. Holding S.A.	Brazil	100.00	-
BTG Pactual RE Holding S.A.	Brazil	100.00	-
BPMB III	Brazil	100.00	-
BPMB IV	Brazil	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	99.83	99.83
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	100.00	100.00
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	87.32	100.00
Nala Fundo de Investimento em Participações	Brazil	100.00	100.00
BTG Pactual Global Fund	Cayman	100.00	-
Fundo de Investimento em direitos Creditórios Multisegmentos	Brazil	100.00	-
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	100.00	-

b. Functional currency

The items included in the Bank's financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The financial statements are presented in Reais (R$), which is the functional currency of the controller, the Bank. Assets and liabilities were translated into reais at the rate prevailing at the reporting date, while income and expense accounts were translated at the average rate of the month.

The financial statements of the companies abroad, originally stated in their functional currencies were translated into reais at the US dollar foreign exchange rate on the reporting dates.

The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature.

4. Signifficant accounting practices

The most significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are the following:

a. Cash and cash equivalents

For the purposes of statements of cash flow, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments redeemable in up to 90 days, subject to an insignificant risk of change in value

b. Short-term interbank investments, remunerated BACEN deposits, remunerated deposits, open market funding, funds from securities issued and accepted, loans and onlending, subordinated debts and other asset and liability transactions

The transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a *pro rata die* basis, based on the effective rate of the transactions.

c. Securities

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068/01 of November 8, 2001, under the following categories:

i. Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are recognized at cost plus income earned, and adjusted to fair value and for the period.

ii. Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, plus income earned, with a corresponding entry to income (loss), and subsequently adjusted to fair value, with a corresponding entry to a separate account under shareholders' equity, net of tax effects, which will only be recognized in income (loss) after the effective realization.

iii. Held-to-maturity securities

These are securities that the Bank has intention and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to income (loss) for the period. Decreases in the fair value of available-for-sale and held-to-maturity securities below their respective restated costs, related to non-temporary reasons, will be recognized in income (loss) as realized losses. According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

d. Derivative financial instruments

These are classified according to Management's intention, on the transaction date, considering whether such transactions will be conducted to hedge against risk or not.

The transactions using financial instruments performed on their own, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or not realized, recognized directly in income (loss) for the period.

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as hedge and are classified according to their nature:

Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in income (loss) for the period; and

Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recognized in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recognized in income (loss) for the period

e. Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or even based on the price determined for other financial instruments with similar characteristics. Therefore, at the time of financial settlement of these transactions, results may differ from the estimates. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the stock option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the duration of their agreements.

Assets and liabilities resulting from swap and currency forward transactions of non-delivery forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, adjusted at fair value, with a corresponding entry to income (loss).

The notional amount of the agreements is recognized in off-balance accounts.

f. Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

g. Sale or transfer of financial assets with substantial retention of risks and benefits

As of 2012, the transactions of sale or transfer of financial assets when the entity has retained substantially all the risks and benefits of operations, remains registered in their respective categories of assets, with a liability relating to obligation.

h. Loans and other receivables (operations with credit characteristics)

Recorded at present value, calculated on a *pro rata die* basis on the index variation and on the agreed interest rate, updated up to 59^{th} day of default, provided the expected receipt. As from the 60^{th} day, the recognition in income (loss) occurs at the time of effective receipt of installments. Renegotiated transactions are maintained at least in the same level in which they were recorded before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in income when actually received.

i. Allowance for loan losses

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, of December 21, 1999, among which:

Allowances are recognized for loans, based on the classification of the client's risk, based on the periodical analysis of client quality and of activity industries and not only upon default.

Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with term exceeding 36 months.

The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

j. Investments

Jointly controlled subsidiaries and associated companies are accounted for under the equity method of accounting. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

k. Goodwill and negative goodwill

Goodwill or negative goodwill is calculated based on the difference between the acquisition amount paid and the net carrying amount.

Goodwill, based on the basis of expected future results of the acquired subsidiaries, is amortized in line with the cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in Investments in jointly controlled companies group, and in deferred income to subsidiaries, until the investment is realized.

l. Property plant and equipment in use and deferred charges

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line method over the estimated period of usage and/or lease.

m. Intangible assets

Corresponds to acquired rights that have as their subject intangible assets destined to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642, of November 26, 2008. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

n. Impairment

Whenever there is clear evidence that the assets are valued at an unrecoverable amount, it is recorded as loss in the results for the period. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of provision for losses that is calculated according to the value in use or fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

o. Income tax and social contribution

The provisions for income tax and social contribution are recognized based on book income adjusted by additions and deductions provided by the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R$ 240, and 15% for social contribution of financial institutions and 9% for non-financial institutions.

p. Contingent assets and liabilities, and legal, tax and social security obligations

Recognized according to the criteria described below:

i. Contingent assets

Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

ii. Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in an legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions or disclosure.

iii. Legal liabilities – tax and social security

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

q. Earnings per share

Calculated based on weighted average shares for the periods.

r. Revenue recognition

Revenues and expenses are determined on the accrual basis.

5. Risk management

The Bank's committee structure allows for the inputs from the entire organization and ensures that the decisions are implemented easily and effectively. The main committees involved in risk management activities are: (i) Management Committee, which approves policies, defines overall limits and is ultimately responsible for managing risks, (ii) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products, (iii) Credit Risk Committee, which is responsible for approving new loans according to the guidelines set forth by the Bank's Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (v) Operational Risk Committee, which assesses the main operational risks for the internal policies and regulatory risks established, (vi) ALM (Anti Money Laundering) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering, (vii) CFO Committee, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure, (viii) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. We believe that the involvement of the Committees (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas.

a. Operating limits

According to the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology to calculate the Reference Shareholders' Equity (PR) and the Required Reference Shareholders' Equity (PRE), as of July 1, 2008, through CMN Resolutions 3444/07 and 3490/07. In addition, BACEN Circular Letters 3360/07, 3361/07 to 3366/07, 3368/07, 3383/08, 3388/08 and 3389/08 established the guidelines to determine credit, market and operating risks.

The Basel ratio was calculated based on the financial statements, on a consolidated basis, including all the subsidiaries.

In thousands of reais

	06/30/2012	12/31/2011
Reference Shareholders' Equity (PR)	12,338,510	8,430,976
Shareholders' equity – Tier 1	9,105,515	6,331,062
Shareholders' equity – Tier 2	4,117,296	3,165,531
Deductions from the Reference Shareholders' Equity	(884,301)	(1,065,617)
Required Reference Shareholders' Equity (PRE)	7,355,198	5,250,915
Credit risk	4,008,101	3,416,049
Market risk	3,121,281	1,553,458
Operating risk	225,816	281,408
Exceeding Required Reference Equity: (PR-PRE)	4,983,312	3,180,061
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	18.45%	17.66%

Management elected the basic indicator approach to measure the operating risk.

The fixed assets to equity capital ratio, as determined by CMN Resolution 2283/96, amended by Resolution 2669/99 and with the wording of Resolutions 2743/00 and 3426/06, are also calculated on a consolidated basis considering all subsidiaries:

	06/30/2012	12/31/2011
Reference Shareholders' Equity (PR)	12,338,511	8,430,976
Equity securities	(6)	(6)
Reference Shareholders' Equity for fixed assets to equity capital ratio (PR_LI)	12,338,505	8,430,970
Fixed assets to equity capital ratio (50%)	6,169,253	4,215,485
Status for fixed assets to equity capital ratio	4,439,346	3,034,871
Permanent assets	2,863,724	1,409,501
Deferred permanent assets	(7,659)	(8,772)
Equity securities	(6)	(6)
Investment in subsidiaries authorized to operate under BACEN	(876,105)	(427,132)
Variable income securities recognized in current assets	2,459,392	2,061,280
Margin	1,729,907	1,180,614

As at June 30, 2012 and December 31, 2011, all operating limits are duly complied with.

b. Market risk

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one-day period, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses a stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Group's and its subsidiaries' daily average VaR for the quarters ended:

In millions of R$	June 2012	December 2011	June 2011
Daily average VaR	52.6	43.2	29.7

c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d. Liquidity risk

The bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at extremely competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e. Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and antecipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

In thousands of reais

6. Cash at banks

Cash at banks refer basically to deposits abroad in prime banks.

7. Short term interbank investments

	06/30/2012					12/31/2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	25,120,029	20,256,835	4,863,194	-	-	18,624,436
Own portfolio	4,943,026	3,748,206	1,194,820	-	-	4,121,337
Federal government bonds	3,856,948	2,662,128	1,194,820	-	-	1,572,128
Foreign bonds	3,119	3,119	-	-	-	-
Corporate bonds	195,946	195,946	-	-	-	290,066
Foreign government bonds	887,013	887,013	-	-	-	2,259,143
Third-party portfolio	19,056,682	15,790,697	3,265,985	-	-	13,153,965
Federal government bonds	18,047,855	14,781,870	3,265,985	-	-	11,026,064
Foreign government bonds	1,008,827	1,008,827	-	-	-	2,127,901
Short position	1,120,321	717,932	402,389	-	-	1,349,134
Federal government bonds	1,013,971	611,582	402,389	-	-	1,056,754
Foreign government bonds	106,350	106,350	-	-	-	292,380
Interbank investments (*)	1,755,667	1,105,244	644,949	5,474	-	958,600
Interbank deposit certificates	682,793	32,370	644,949	5,474	-	916,457
Investments in foreign currency - overnight	1,072,874	1,072,874	-	-	-	42,143
	26,875,696	21,362,079	5,508,143	5,474	-	19,583,036

(*) Refers basically to interbank deposits in prime banks.

As at June 30, 2012 and December 31, 2011 the balances above are reported net of corresponding liabilities in the amount of R$ 18,276,476 and R$ 6,681,113, according note 4(f).

The collateral received in repurchase agreements amounts to R$ 25,880,054 (December 31, 2011 - R$ 26,884,577), whereas the collateral granted amounts to R$ 58,099,680 (December 31, 2011 - R$ 52,525,794).

In thousands of reais

8. Securities

a. By type of portfolio

The breakdown by type of instrument, maturity and type of portfolio is as follows:

	06/30/2012							12/31/2011
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	18,895,372	18,619,582	7,523,260	1,178,903	3,771,753	3,039,864	3,105,802	16,533,609
Federal government bonds	2,440,216	2,443,152	1,608,678	87,069	575,066	107,382	64,957	2,922,738
Brazilian foreign debt securities	16,061	15,973	-	2,545	579	-	12,849	-
Debentures/Eurobonds (i)	4,723,090	4,721,942	259,844	54,198	2,396,757	1,101,338	909,805	4,293,557
Bank certificates of deposit	130,646	130,646	-	61,841	68,805	-	-	-
Bank credit certificate	44,252	44,252	23,492	13,757	7,003	-	-	100,425
Investment fund quotes								
Shares	110,143	110,143	110,143	-	-	-	-	118,511
Multimarket	1,296,582	1,307,510	1,307,510	-	-	-	-	943,038
FDIC - Credit Rights	420,360	420,360	-	-	-	420,360	-	449,263
Real Estate	553,058	553,058	-	-	-	553,058	-	-
Equity Investment fund	523,519	523,519	-	-	-	523,519	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	858,255	860,549	860,549	-	-	-	-	3,584,455
Promissory notes	620,250	620,157	518,552	101,605	-	-	-	956,853
Certificate of real estate receivables	603,499	602,853	-	75,160	87,039	14,007	426,647	748,165
Foreign government bonds								
United States	917,356	919,240	48,508	63,160	-	73,461	734,111	421,831
Germany	27,703	27,251	-	-	-	12,212	15,039	-
Other	248,698	239,489	76,035	9,963	3,899	-	149,592	55,648
Foreign private securities	4,623,757	4,358,499	2,709,270	585,996	632,605	184,200	246,428	809,162
US Agencies	517,404	515,654	-	-	-	-	515,654	100,630
Financial bills	23,364	23,364	-	23,364	-	-	-	-
Other	197,159	181,971	679	100,245	-	50,327	30,720	188,809
Unrestricted portfolio	94,761	87,555	-	-	-	-	87,555	12,560
Federal government bonds	94,761	87,555	-	-	-	-	87,555	12,560
Subject to repurchase agreements	37,447,315	37,317,909	309,398	649,899	16,718,868	9,939,708	9,700,036	21,055,304
Federal government bonds	8,945,083	8,836,142	75,178	22,309	2,467,371	1,794,323	4,476,961	5,876,773
Foreign government bonds								
United States	13,230,929	13,237,836	234,220	108,580	6,731,545	5,000,976	1,162,515	3,795,158
United Kingdom	867,486	872,911	-	-	-	370,457	502,454	1,181,677
Germany	893,599	893,829	-	-	184,372	709,457	-	275,426
Other	690,119	668,506	-	25,210	-	259,627	383,669	218,324
US Agencies	9,751,113	9,797,074	-	-	6,965,917	939,802	1,891,355	8,078,497
Debentures / Eurobonds (i)	1,849,658	1,851,376	-	456,670	152,055	761,820	480,831	888,799
Foreign private securities	1,219,327	1,160,235	-	37,130	217,608	103,246	802,251	740,650
Subject to guarantees	2,296,930	2,269,390	144,479	260,978	838,334	221,737	803,862	2,235,070
Federal government bonds	2,282,085	2,250,204	125,293	260,978	838,334	221,737	803,862	2,148,776
Shares	14,845	19,186	19,186	-	-	-	-	86,294
Trading securities	54,755,366	54,315,425	7,977,137	2,089,780	21,328,955	12,532,482	10,387,071	36,048,056
Held-to-maturity securities	3,979,011	3,979,011	-	-	-	668,827	3,310,184	3,788,487
	58,734,377	58,294,436	7,977,137	2,089,780	21,328,955	13,201,309	13,697,255	39,836,543

(i) Substantially securities issued by Brazilian companies.

In thousands of reais

b. Trading securities

	06/30/2012							12/31/2011
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	18,895,372	18,619,582	7,523,260	1,178,903	3,771,753	3,039,864	3,105,802	14,157,694
Federal government bonds	2,440,216	2,443,152	1,608,678	87,069	575,066	107,382	64,957	546,823
Brazilian foreign debt securities	16,061	15,973	-	2,545	579	-	12,849	-
Debentures/Eurobonds	4,723,090	4,721,942	259,844	54,198	2,396,757	1,101,338	909,805	4,293,557
Bank certificate of deposit	130,646	130,646	-	61,841	68,805	-	-	-
Bank credit certificate	44,252	44,252	23,492	13,757	7,003	-	-	100,425
Investment fund quotes								
Shares	110,143	110,143	110,143	-	-	-	-	118,511
Multimarket	1,296,582	1,307,510	1,307,510	-	-	-	-	943,038
FDIC - Credit Rights	420,360	420,360	-	-	-	420,360	-	449,263
Real Estate	553,058	553,058	-	-	-	553,058	-	-
Equity Investment fund	523,519	523,519	-	-	-	523,519	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	858,255	860,549	860,549	-	-	-	-	3,584,455
Promissory notes	620,250	620,157	518,552	101,605	-	-	-	956,853
Certificate of real estate receivables	603,499	602,853	-	75,160	87,039	14,007	426,647	748,165
Foreign government bonds								
United States	917,356	919,240	48,508	63,160	-	73,461	734,111	421,831
Germany	27,703	27,251	-	-	-	12,212	15,039	-
Others	248,698	239,489	76,035	9,963	3,899	-	149,592	55,648
Corporate bonds issued abroad	4,623,757	4,358,499	2,709,270	585,996	632,605	184,200	246,428	809,162
US Agencies	517,404	515,654	-	-	-	-	515,654	100,630
Financial bills	23,364	23,364	-	23,364	-	-	-	-
Other	197,159	181,971	679	100,245	-	50,327	30,720	188,809
Unrestricted portfolio	94,761	87,555	-	-	-	-	87,555	12,560
Federal government bonds	94,761	87,555	-	-	-	-	87,555	12,560
Subject to repurchase agreements	34,037,377	33,907,971	309,398	649,899	16,718,868	9,405,990	6,823,816	21,055,304
Federal government bonds	5,535,145	5,426,204	75,178	22,309	2,467,371	1,260,605	1,600,741	5,876,773
Foreign government bonds								
United States	13,230,929	13,237,836	234,220	108,580	6,731,545	5,000,976	1,162,515	3,795,158
United Kingdom	867,486	872,911	-	-	-	370,457	502,454	1,181,677
Germany	893,599	893,829	-	-	184,372	709,457	-	275,426
Others	690,119	668,506	-	25,210	-	259,627	383,669	218,324
US Agencies	9,751,113	9,797,074	-	-	6,965,917	939,802	1,891,355	8,078,497
Debêntures / Eurobonds	1,849,658	1,851,376	-	456,670	152,055	761,820	480,831	888,799
Foreign private securities	1,219,327	1,160,235	-	37,130	217,608	103,246	802,251	740,650
Subject to guarantees	1,727,857	1,700,317	144,479	260,978	838,334	86,628	369,898	822,498
Federal government bonds	1,713,012	1,681,131	125,293	260,978	838,334	86,628	369,898	736,204
Shares	14,845	19,186	19,186	-	-	-	-	86,294

In thousands of reais

c. Held-to-maturity securities

	06/30/2012						12/31/2011
	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Subject to re purchase	3,409,938	-	-	-	533,718	2,876,220	-
Federal government bonds	3,409,938	-	-	-	533,718	2,876,220	-
Subject to guarantees	569,073	-	-	-	135,109	433,964	1,412,572
Federal government bonds	569,073	-	-	-	135,109	433,964	1,412,572

If measured at fair value, held-to-maturity securities would be reported with a positive adjustment of R$ 276,236 (December 31, 2011 – R$ 38,503).

The Group has financial capacity for maintaining such assets to maturity.

d. Reclassification of securities

Management classifies securities according to its trading intention. No reclassifications or changes in intention were made by Management during the semester.

9. Derivative financial instruments

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedge for their own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed by strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

Transactions conducted in Brazil are traded, registered or held in custody by BM&FBOVESPA and CETIP S.A. – OTC Clearing House; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at June 30, 2012 and December 31, 2011, the bank does not have derivative financial instruments classified as hedge

a. Recognized in memorandum and balance sheet accounts

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
June 30, 2012
In thousands of reais

The notional amounts of transactions with financial instruments are recorded in off balance accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, consider the provisions of BACEN Circular Letter 3389/08, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with term in the first business day following the date the exchange exposure is verified.

	06/30/2012				12/31/2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	18,757,980	50,506,210	10,188,290	79,452,480	151,422,635
Currency	1,697,266	216,405	1,694,606	3,608,277	4,175,540
Interest rate	15,801,560	50,242,294	8,419,197	74,463,051	146,119,068
Commodities	230,382	47,511	-	277,893	262,961
Index	977,135	-	68,421	1,045,556	840,022
Equities	51,637	-	6,066	57,703	12,522
Others	-	-	-	-	12,522
Short position	3,443,559	2,364,288	6,954,830	12,762,677	15,556,377
Currency	580,452	1,222,225	3,734,525	5,537,202	4,781,697
Interest rate	1,928,965	1,091,888	3,082,465	6,103,318	7,613,219
Equities	44,515	3,112	-	47,627	2,233,713
Commodities	241,061	33,022	57,244	331,327	246,924
Index	648,566	14,041	80,596	743,203	680,824
Swap					
Long position	33,885,094	28,197,158	28,276,347	90,358,599	43,380,473
Currency	2,792,975	20,157	471,784	3,284,916	1,580,973
Interest rate	29,299,284	13,728,614	27,083,614	70,111,512	33,077,864
Index	281,134	7,015,880	719,046	8,016,060	6,674,627
Equities	1,479,074	7,413,966	1,297	8,894,337	1,102,414
Commodities	24,543	-	-	24,543	18,817
Other	8,084	18,541	606	27,231	925,778
Short position	33,885,094	28,197,158	28,276,347	90,358,599	43,380,473
Currency	2,182,346	154,914	1,083,395	3,420,655	4,434,708
Interest rate	28,639,254	12,710,345	26,187,955	67,537,554	2,088,538
Index	2,068,487	7,247,342	877,936	10,193,765	35,221,673
Equities	928,790	7,443,123	624	8,372,537	181,420
Commodities	9,050	-	-	9,050	3,837
Other	57,167	641,434	126,437	825,038	1,450,297
Credit Derivatives					
Long position	409	141,449	2,600,880	2,742,738	1,305,128
Sovereign	409	40,414	753,355	794,178	119,234
Corporate	-	101,035	1,847,525	1,948,560	1,185,894
Short position	206,418	189,474	2,349,835	2,745,727	3,138,689
Sovereign	206,111	128,853	1,373,837	1,708,801	697,537
Corporate	307	60,621	975,998	1,036,926	2,441,152
Non-deliverable forward - NDF					
Long position	13,717,095	1,780,028	1,788,143	17,285,266	16,727,162
Currency	13,694,727	1,762,508	1,783,325	17,240,560	4,290,638
Interest rate	22,368	12,702	-	35,070	12,436,524
Commodities	-	4,818	4,818	9,636	-
Short position	13,717,096	1,780,028	1,788,142	17,285,266	16,727,162
Currency	13,201,808	1,602,861	1,525,389	16,330,058	15,639,514
Interest rate	515,288	177,167	262,753	955,208	797,836
Index	-	-	-	-	1,601
Equities	-	-	-	-	227,455
Other	-	-	-	-	60,756
Deliverable forward - DF					
Long position	4,558,893	99,509	-	4,658,402	2,054,980
Currency	4,354,641	99,509	-	4,454,150	2,054,980
Commodities	204,252	-	-	204,252	-
Short position	4,558,893	99,509	-	4,658,402	2,054,980

In thousands of reais

Currency	4,558,893	99,509	-	4,658,402	2,054,980
Security forwards					
Long position	3,383,876	-	-	3,383,876	1,479,074
Interest rate	1,763,726	-	-	1,763,726	739,537
Government bonds	1,620,150	-	-	1,620,150	739,537
Short position	3,383,876	-	-	3,383,876	1,479,074
Interest rate	1,620,150	-	-	1,620,150	739,537
Government bonds	1,763,726	-	-	1,763,726	739,537

	06/30/2012				12/31/2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Options market					
Call option	9,704,361	6,011,987	520,003	16,236,351	39,988,360
Equities	3,373,264	75,658	15,385	3,464,307	4,268,996
Commodities	43,445	-	-	43,445	24,386
Index	4,669,962	583,798	176,856	5,430,616	946,381
Currency	169,498	122,846	130,510	422,854	19,349,960
Interest rate	1,448,192	5,227,685	197,252	6,873,129	15,396,308
Other	-	2,000	-	2,000	2,330
Put option	11,231,371	27,349,849	631,427	39,212,647	39,381,862
Equities	819,261	-	-	819,261	539,837
Commodities	24,606	-	-	24,606	66,361
Index	2,106,487	1,194,626	281,084	3,582,197	313,270
Currency	1,531,670	119,364	81,360	1,732,394	18,926,304
Interest rate	6,749,347	23,867,648	18,983	30,635,978	18,024,844
Other	-	2,168,211	250,000	2,418,211	1,511,245
Call option	8,298,223	6,174,750	308,345	14,781,318	42,873,761
Equities	2,690,086	105,430	-	2,795,516	302,027
Commodities	141,510	-	-	141,510	24,376
Index	3,116,874	622,347	-	3,739,221	6,187,006
Currency	909,766	143,959	107,544	1,161,269	25,561,644
Interest rate	1,439,987	5,303,014	200,801	6,943,802	10,798,707
Put option	11,806,742	23,770,603	92,741	35,670,086	29,114,425
Equities	1,067,093	34,089	10,116	1,111,298	233,026
Commodities	60,843	-	-	60,843	64,843
Index	2,606,277	273,712	-	2,879,989	969,037
Currency	1,321,535	112,802	81,360	1,515,697	19,523,114
Interest rate	6,750,994	23,350,000	1,265	30,102,259	8,324,405

b. By cost and market value

	06/30/2012					12/31/2011
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	35,528	80,026	77,831	129	2,066	22,517
Short position	21,277	22,092	12,544	428	9,120	15,900
Swaps						
Long position	177,192	314,641	73,942	49,679	191,020	267,019
Short position	671,569	772,048	405,184	103,595	263,269	466,791
Credit derivatives						
Long position	188,150	219,747	-	457	219,290	151,046
Short position	192,778	236,246	-	1,819	234,427	128,264
Non-deliverable forward - NDF						
Long position	368,489	356,619	213,204	47,254	96,161	266,937
Short position	66,853	69,096	33,005	10,507	25,584	74,379
Deliverable forward - DF						
Long position	2,232,332	2,232,332	2,163,774	68,558	-	491,985
Short position	2,229,114	2,229,114	2,161,049	68,065	-	491,120

In thousands of reais

Security forwards						
Long position	3,376,712	3,376,712	3,376,712	-	-	1,479,073
Short position	4,926,285	3,386,628	3,386,628	-	-	1,479,073
Options market						
Long position	533,825	533,847	288,321	187,266	58,260	378,783
Short position	421,162	519,865	252,484	224,386	42,995	298,262
Total - Long position / asset	**6,912,228**	**7,113,924**	**6,193,784**	**353,343**	**566,797**	**3,057,360**
total - Short position / liability	**8,529,038**	**7,235,089**	**6,250,894**	**408,800**	**575,395**	**2,953,789**

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
June 30, 2012
In thousands of reais

c. Nocional by counterparty

	06/30/2012					12/31/2011
	BM&FBovespa	Financial Institutions (*)	Companies	Individuals	Total	Total
Futures market						
Long position	76,533,270	2,919,210	-	-	79,452,480	151,422,635
Short position	6,374,710	6,387,967	-	-	12,762,677	15,556,377
Swap						
Long position	2,659,557	85,448,810	2,235,206	15,026	90,358,599	43,380,473
Short position	2,659,557	85,448,810	2,235,206	15,026	90,358,599	43,380,473
Credit derivatives						
Long position	-	2,742,738	-	-	2,742,738	1,305,128
Short position	-	2,745,727	-	-	2,745,727	3,138,689
Non-deliverable forward - NDF						
Long position	-	16,299,649	974,769	10,848	17,285,266	16,727,162
Short position	-	16,299,649	974,769	10,848	17,285,266	16,727,162
Deliverable forward - DF						
Long position	-	4,658,402	-	-	4,658,402	2,054,980
Short position	-	4,658,402	-	-	4,658,402	2,054,980
Security forwards						
Long position	23,132	3,360,744	-	-	3,383,876	1,479,074
Short position	23,132	3,360,744	-	-	3,383,876	1,479,074
Options market						
Long position	32,030,850	21,727,971	1,672,956	17,221	55,448,998	79,370,222
Short position	31,733,042	17,376,169	1,309,492	32,701	50,451,404	71,988,186
	111,246,809	**137,157,524**	**4,882,931**	**43,095**	**253,330,359**	**295,739,674**
	40,790,441	**136,277,468**	**4,519,467**	**58,575**	**181,645,951**	**154,324,941**

(*) Includes investments funds.

d. Credit derivatives

	06/30/2012	12/31/2011
Credit swap		
Transferred risk		
Sovereign	794,178	1,185,894
Corporate	1,948,560	119,234
Risk received		
Sovereign	(1,708,801)	(2,441,152)
Corporate	(1,036,926)	(697,537)
Total	(2,989)	(1,833,561)

During the semester, there were no credit events related to triggering facts provided for in agreements.

According to CMN Resolution 3490, the effect on the calculation of the Required Reference Shareholders' Equity (PRE) as at June 30, 2012 is R$ 83,586 (December 31, 2011 – R$ 72,129).

e. Guarantee margins

Guarantee margin in transactions traded on BM&FBOVESPA with derivatives comprises federal government bonds totaling R$ 1,756,420 (December 31, 2011 – R$ 2,187,464) and shares in the amount of R$ 19,185 (December 31, 2011 – R$ 86,294).

f. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on BM&F, Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).

Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.

Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. This data is obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).

Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer’s credit spread and interest rate yield curve. This data is obtained from different sources (normally market prices, Bloomberg and Reuters).

Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company’s commercial departments. Shares are calculated based on the prices informed by BOVESPA. Fund quotas are valued based on quota prices disclosed by the custodian.

Financial assets at fair value through profit (loss): The Company estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

10. Loans

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99.

This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, as applicable.

In thousands of reais

The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by said Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

Type of credit	06/30/2012 Balance	06/30/2012 Allowance	12/31/2011 Balance	12/31/2011 Allowance
Loans	3,242,515	(96,052)	2,987,490	(77,428)
Financing	1,249,092	(12,123)	1,399,992	(4,873)
FINAME/BNDES	15,614	(85)	44,647	(47)
Securities financing	708,630	-	315,299	-
Total	5,215,851	(108,260)	4,747,428	(82,348)

ii. By risk level and maturity

	06/30/2012						12/31/2011	
		Falling due						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	40,340	870,723	874,493	851,682	2,637,238	-	2,448,139	-
A	-	298,583	492,782	459,714	1,251,079	(6,255)	1,494,473	(10,136)
B	72	222,953	73,818	351,680	648,523	(6,485)	536,161	(5,362)
C	-	233,643	129,032	171,562	534,237	(17,056)	56,095	(1,683)
D	-	1,214	13,298	2,297	16,809	(1,681)	138,256	(13,826)
E	7,037	17,153	14,973	3,326	42,489	(12,747)	-	-
F	1,462	17,538	2,881	-	21,881	(10,940)	24,212	(12,106)
G	5,509	5,132	8,195	16,156	34,992	(24,495)	36,190	(25,333)
H	27,281	612	609	101	28,603	(28,601)	13,902	(13,902)
Total	81,701	1,667,551	1,610,081	1,856,518	5,215,851	(108,260)	4,747,428	(82,348)

iii. By activity sector

Sector	06/30/2012	12/31/2011
Commerce	82,660	31,908
Industry	764,842	872,011
Services	3,678,908	3,174,487
Rural	464,051	313,494
Individuals	225,390	355,528
Total	5,215,851	4,747,428

b. Other receivables - with loans characteristics and loan assignment

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and loan assignments, as follows:

In thousands of reais

i. By risk level and maturity

	06/30/2012						12/31/2011	
		Falling due						
Risk Level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	228	89,629	376,511	189,055	655,423	-	635,547	-
A	-	29,594	36,001	85,348	150,943	(755)	-	-
B	486	9,440	24,185	10,282	44,393	(444)	26,061	(261)
C	-	2,431	-	-	2,431	(73)	175	(5)
D	-	-	-	186	186	(18)	-	-
Total	714	131,094	436,697	284,871	853,376	(1,290)	661,783	(266)

ii. By activity sector

Sector	06/30/2012	12/31/2011
Industry	43,469	42,641
Services	809,907	619,142
Total	853,376	661,783

The total of other receivables - with loans and transferred credit characteristics is comprised by securities and credits receivable (Note 12(b)) of R$ 774,310 (2011 – R$ 661,783) and loan assignment with coobligation (Note 10(g)) of R$ 79,066 (2011 – zero).

c. Advances in foreign exchange contracts

i. By risk level and maturity

	06/30/2012						12/31/2011	
		Falling due						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	77,113	-	77,113	-	97,578	-
A	-	181,204	236,656	-	417,860	(2,089)	276,881	(1,384)
B	-	17	76,130	-	76,147	(761)	190,037	(1,900)
C	-	15,668	3,869	-	19,537	(586)	-	-
Total	-	196,889	393,768	-	590,657	(3,436)	564,496	(3,284)

ii. By activity sector

Sector	06/30/2012	12/31/2011
Commerce	-	5,885
Industry	162,029	32,954
Services	428,628	525,657
Total	590,657	564,496

In thousands of reais

d. Credit concentration

	06/30/2012	%	12/31/2011	%
Largest debtors				
10 largest debtors	3,600,785	54%	2,541,989	43%
20 largest debtors	1,640,532	25%	1,829,425	31%
50 following largest debtors	1,219,404	18%	1,187,123	20%
100 following largest debtors	199,163	3%	415,170	7%
	6,659,884	100%	5,973,707	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with credit characteristics in the periods were as follows:

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Opening balances	(96,775)	(78,584)	(85,898)	(81,250)
Reversal/(recording) of allowance	(18,199)	(4,523)	(34,368)	(13,854)
Exchange rate variation	(1,410)	330	(1,145)	-
Credits written off as loss	3,398	1,486	8,425	13,813
Closing balances	(112,986)	(81,291)	(112,986)	(81,291)
Breakdown of closing balances				
Allowance for loan losses	(108,260)	(78,685)	(108,260)	(78,685)
Allowance for other receivables	(1,290)	(225)	(1,290)	(225)
Allowance for advances on foreign exchange contracts	(3,436)	(2,381)	(3,436)	(2,381)
	(112,986)	(81,291)	(112,986)	(81,291)

Changes in the allowance for other receivables without credit characteristics in the periods were as follows:

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Opening balances	(719,274)	(30,480)	(659,581)	(30,253)
Reversal/(recording) of allowance	(140,111)	1,532	(199,904)	1,304
Exchange rate variation	(300)	211	(200)	211
Closing balances	(859,685)	(28,737)	(859,685)	(28,738)

In thousands of reais

Allowances for other receivables with credit characteristics refer to the acquisition of credit rights, as illustrated in item (b) of this note and allowances for other receivables without loan assignment characteristics basically refer to provision for stand-by letters and guarantees granted (note 24(b)).

f. Renegotiation/recovery of credits written off as loss

There were no renegotiations of credit loans during the semester ended June 30, 2012 (2011 - R$ 31,507). Credit written off as loss recovered in the semester ended June 30, 2012 totaling R$ 11,589 (2011 – R$ 13,810).

g. Loan assignment

In the semester ended June 30, 2012 there were loan assignment with coobligation totaling R$ 82,034 (December 31, 2011 – zero). On June 30, 2012, the net amount transferred totaled R$ 79,066 and refers to settlements during the period.

11. Other receivables/Obligations

a. Foreign Exchange porfolio

	06/30/2012		12/31/2011	
	Assets	Liabilities	Assets	Liabilities
Unsettled Exchange purchased/sold	1,767,243	849,113	753,727	101,311
Rights on foreign exchange sales	856,919	-	101,485	-
(-) Advances on foreign Exchange contracts (i)	14,020	(576,637)	19,037	(545,459)
(-) Advances on foreign currency received	-	-	(94,335)	-
(-) Advances in local currency received	(313)	-	(3,739)	-
Liability for foreign exchange purchase	-	1,721,723	-	668,529
	2,637,869	1,994,199	776,175	224,381
Current	2,637,869	1,994,199	145,565	224,381
Long-term	-	-	630,610	-

(ii) See note 10(c).

Guarantees for foreign exchange transactions carried out through BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange (BM&FBOVESPA), are represented by federal government bonds in the amount of R$ 493,784 (December 31, 2011 - R$ 25,475).

b. Securities trading and brokerage

	06/30/2012		12/31/2011	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	70,850	1,022,309	30,809	99,295
Commissions and brokerage payable	-	137	-	154
Debtors/creditors – pending settlement account	7,110,613	5,695,609	4,372,440	3,727,062
Creditors for gold loans	-	194,688	-	1,613,269
Creditors for stock loans	-	1,341,556	-	-
Swap brokerage	128	-	-	-
Securities trading and brokerage	-	2,960,578	513	2,490,254

In thousands of reais

	7,181,591	11,214,877	4,403,762	7,930,034
Current	7,181,463	11,214,877	4,402,981	7,921,906
Long-term	128	-	781	8,128

The item "Debtors/creditors – pending settlement account" is basically represented by amounts pending settlement within the terms established in regulation, relating to transactions involving the purchase and sale of securities and financial asset agreements at BM&FBOVESPA, and abroad through prime brokers, on the Bank's behalf or on behalf of third parties.

The item "Securities trading and brokerage" basically represents, in assets, swap intermediation transactions, and in liabilities, it refers basically to the sale of shares, to be settled within the terms established in the regulation.

12. Other receivables

a. Income receivable

	06/30/2012	12/31/2011
Dividends and bonuses	9,306	12,083
Receivables from services rendered	335,588	208,608
Management and performance fees for investment funds and portfolio	173,259	145,974
Distribution fees	9,542	12,753
Commissions on guarantees	28,840	2,450
Other	55,365	9,614
	611,900	391,482
Current	611,422	356,677
Long-term	478	34,805

b. Sundry

	06/30/2012	12/31/2011
Deferred tax assets (Note 17)	1,343,210	1,318,256
Judicial deposits	604,333	530,668
Taxes to offset	219,358	220,499
Tax incentive options	1,317	1,317
Securities and credits receivable		
With credit characteristics (i)	774,310	661,783
Without credit characteristics (ii)	2,688,086	3,090,260
Sundry - Brazil	538,784	1,312,799
Other	194,672	1,624
	6,364,070	7,137,206
Current	4,542,432	5,240,085
Long-term	1,821,638	1,897,121

(i) See note 10 (b).
(ii) Refer to the acquisition of payroll loan and vehicle financing portfolios through credit rights investment funds (FIDC), which were recognized in this item, taking into consideration that: (i) the acquisition of the portfolio did not consider the individual granting criteria of each agreement, and (ii) Portfolio management is performed on a consolidated basis.

In thousands of reais

13. Investments in associates and jointly-controlled subsidiaries

	Associates and jointly controlled entities					
	Shareholders Equity		Net income (loss)			
			2nd Quarter		1st Semester	
	06/30/2012	12/31/2011	2012	2011	2012	2011
In Brazil						
Banco Panamericano S.A. (ii)	2,835,814	1,398,350	(325,469)	50,524	(322,576)	50,524
Warehouse 1 Empreendimentos Imobs S.A.	58,284	40,089	29,065	-	29,065	-
Max Casa XIX Empreendimentos Imobs S.A.	16,023	14,358	(291)	-	1,677	-
ACS Omicron Empreendimentos Imobs S.A.	20,401	18,414	(6)	-	3,371	-
BR Properties S.A. (i) (iii)	7,497,237	-	452,713	-	785,103	-
One Properties S.A. (i)	-	658,287	-	-	-	-
Vivere Soluções e Serviços S.A.	29,997	9,233	(3,488)	-	(5,670)	-

	Associates and jointly controlled entities							
	Interest		Investment		Equity in subsidiaries			
					2nd Quarter		1st Semester	
	06/30/2012	12/31/2011	06/30/2012	12/31/2011	2012	2011	2012	2011
In Brazil								
Banco Panamericano S.A.(ii)	34.06%	37.64%	929,083	461,953	(80,439)	28,770	(79,144)	28,770
Goodwill - Banco Panamericano. (iv)			(35,313)	(39,024)	3,712	-	3,712	-
Warehouse 1 Empreendimentos Imobs S.A.	35.00%	35.00%	20,399	14,031	9,798	-	16,868	-
Goodwill - Warehouse 1 Empreendimentos Imobs S.A.			14,136	14,136	-	-	-	-
Max Casa XIX Empreendimentos Imobs S.A.	50.00%	50.00%	8,011	7,179	714	-	834	-
ACS Omicron Empreendimentos Imobs S.A.	44.74%	44.74%	9,127	8,239	(54)	-	889	-
Goodwill - ACS Omicron Empreendimentos Imobs S.A.			6	6	-	-	-	-
BR Properties S.A. (i) (iii)	28.30%	0.00%	1,749,623	-	315,823	-	315,823	-
One Properties S.A. (i)	0.00%	49.90%	-	329,078	(365)	-	15,429	-
Goodwill - One Properties S.A.			-	320,956	-	-	-	-
Vivere Soluções e Serviços S.A.	30.00%	30.00%	2,770	8,738	(1,394)	-	(5,967)	-
			2,697,842	1,125,292	247,795	28,770	268,444	28,770

(i) See corporate restructuring described in Note 2;
(ii) Joint Controll;
(iii) Total assets of Saira R$ 1,436,536, consolidated on 31 December 2011, was converted into an equity interest in BR Properties of R$ 1,749,623 on June 30, 2012. During the period, due to this transaction, the Bank recognized equity earnings of R$ 663 and allowance for non-permanent impairment totaling R$ 347 million, based on Resolution No. 3566 of the Central Bank (CPC 01 - Reduction in Recoverable Value of Assets) recognized in income statement as pickup on equity, to reflect the probable realizable value of the shares of the affiliate;
(iv) Realization of negative goodwill of R$ 3,712 in the semester, related to the dilution of interest on the investment in Banco Panamericano S.A.;

a. Banco Panamericano S.A

On January 31, 2012 the bank contributed to capital increase into Panamericano S.A. in the amount of R$ 495,476. This capital increase was made by conversion of advances for capital increase into capital stock.

In thousands of reais

The subscription rights of non controlling shareholder's was exercised on May 10, 2012 and the bank aditionaly contributed with R$ 50,804 that refers to the acquisition of preferred shares. After this event BTG Pactual holds 34.06% of interest in Panamericano S.A. The transaction is subject to approval from the competent authorities.

14. Fund raising and loans and onlending

a. Summary

	06/30/2012						12/31/2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	16,371,549	7,600,743	6,302,542	1,266,689	316,210	885,365	14,211,060
Open market funding	57,279,704	54,826,903	2,234,562	-	-	218,239	39,060,989
Funds from securities issued and accepted	5,012,127	847,141	1,290,953	1,123,313	1,162,797	587,923	3,774,631
Loans and onlending	1,407,310	691,398	706,601	8,852	459	-	919,716
Subordinated debts	4,486,372	-	-	-	914,020	3,572,352	4,158,295
	84,557,062	63,966,185	10,534,658	2,398,854	2,393,486	5,263,879	62,124,691

b. Deposits

	06/30/2012						12/31/201
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	1,427,054	1,427,054	-	-	-	-	1,57
Interbank deposits	823,797	550,705	245,781	12,694	12,694	1,923	57
Time deposits	14,120,698	5,622,984	6,056,761	1,253,995	303,516	883,442	12,06
	16,371,549	7,600,743	6,302,542	1,266,689	316,210	885,365	14,21

c. Open market funding

Open market funding is underlined on the following securities:

	06/30/2012						12/31/2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	37,248,662	36,141,084	986,422	-	-	121,156	22,838,450
Federal government bonds	8,964,218	8,306,518	536,544	-	-	121,156	5,885,970
Corporate securities	1,770,904	1,321,026	449,878	-	-	-	791,631
Securities issued abroad	10,611,621	10,611,621	-	-	-	-	16,160,849
Foreign government bonds	15,901,919	15,901,919	-	-	-	-	-
Third-party portfolio	16,127,321	16,127,321	-	-	-	-	13,692,426
Federal government bonds	15,160,887	15,160,887	-	-	-	-	11,572,280
Corporate bonds	-	-	-	-	-	-	3,017
Securities issued abroad	-	-	-	-	-	-	2,112,293
Foreign government bonds	966,434	966,434	-	-	-	-	4,836

In thousands of reais

Unrestricted portfolio	3,903,721	2,558,498	1,248,140	-	-	97,083	2,530,113
Federal government bonds	3,903,721	2,558,498	1,248,140	-	-	97,083	2,239,367
Corporate bonds	-	-	-	-	-	-	-
Securities issued abroad	-	-	-	-	-	-	290,746

As at June 30, 2012 and December 31, 2011, the balances above are reported net of liabilities and correspond to R$18,276,476 and R$ 6,681,113, according to Note 4(f).

d. Funds from securities issued and accepted

	06/30/2012						12/31/2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	3,530,174	750,647	932,256	1,122,719	136,629	587,923	2,624,991
Financial bills	1,694,762	-	99,857	871,497	135,485	587,923	932,464
Mortgage bonds/letters of credit for agribusiness	1,835,412	750,647	832,399	251,222	1,144	-	1,692,527
Securities – abroad	1,481,953	96,494	358,697	594	1,026,168	-	1,149,640
Medium term notes	1,236,200	-	210,827	-	1,025,373	-	1,143,041
Credit linked notes	245,753	96,494	147,870	594	795	-	6,599

Securities issued abroad have rates from 1.35% per year to 7.83% per year.

e. Loans and onlending

	06/30/2012						12/31/2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	1,391,737	685,963	705,774	-	-	-	875,094
Foreign currency	689,829	336,035	353,794	-	-	-	541,493
Loans abroad	701,908	349,928	351,980	-	-	-	333,601
Onlending in Brazil – official institution	15,573	5,435	827	8,852	459	-	44,622
FINAME	15,573	5,435	827	8,852	459	-	44,622

Borrowing and transfers have rates between 1.54% per year to 10.11% per year.

f. Subordinated debt

As at June 30, 2012, the outstanding balance of this item of R$ 4,486,372 (December 31, 2011 – R$ 4,158,295) as represented by financial bills issued on April 15, 2011, with repayment every six months and maturity beginning October 2016 and ending April 15, 2021, indexed to fixed rates plus inflation.

In thousands of reais

15. Other obligations

a. Social and statutory

	06/30/2012	12/31/2011
Dividends and profit sharing payable	401,777	176
Employees' profit sharing	580,637	449,842
Bonus payable	114,095	103,188
	1,096,509	553,206
Current	1,093,431	552,761
Long term	3,078	445

b. Tax and social security

	06/30/2012	12/31/2011
Tax and contributions to be collected	69,041	116,081
Tax and contribution payable	193,631	83,718
Deferred social contribution and income tax	55,880	48,720
Suspended-payment taxes and others tax liabilities	576,779	511,421
	895,331	759,940
Current	311,438	238,783
Long term	583,893	521,157

c. Sundry

	06/30/2012	12/31/2011
Payable for acquisition of assets and rights (i)	548,391	569,694
Accounts payable - personnel	57,390	84,697
Accounts payable - suppliers	238,269	46,669
Accounts payable - other	104,612	70,005
Provision for contingent liabilities	29,762	27,719
Other creditors - country	54,161	23,563
Other creditors - abroad	70,397	56,180
Obligations related to transfered operations	82,195	-
Consolidated funds – Non-controlling interest	111,580	163
Other	104,961	1,023
	1,401,718	879,713
Current	545,813	279,206
Long term	855,905	600,507

(i) Refers to amounts payable for the acquisition of investments (Substantially Panamericano and COOMEX)

In thousands of reais

16. Contingent assets and liabilities and legal obligations – tax and social security

The Bank's and its subsidiaries' Management evaluates existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Management's judgment is based on the opinion of its external legal counsel regarding the expected outcome for each proceeding.

a. Contingent assets

As at June 30, 2012 and December 31, 2011, the Bank does not record contingent assets.

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are accrued based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

ii. Civil provisions

For civil lawsuits with chances of unfavorable outcome (pain and suffering and pecuniary injury, among others requesting condemning judgments), contingency amounts are accrued based on the opinion of internal and external legal counsel.

iii. Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counsel and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions in the period

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recognized for such proceedings at June 30, 2012 are appropriate to cover any losses arising therefrom.The provisions recognized and their changes in the semester are as follows:

	06/30/2012				06/30/2011
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the semester	511,421	20,653	7,066	539,140	446,059
Recognition	65,554	1,799	5,488	72,841	42,546
Write-off	(196)	(3,918)	(1,326)	(5,440)	(5,327)
Balance at the end of the semester	576,779	18,534	11,228	606,541	483,278

In thousands of reais

Suspended-payment taxes and other taxes contingencies	576,779	511,421
Provision for contingent liabilities	29,762	27,719

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 15 b)

The Bank's and its subsidiaries has been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed as possible loss by the internal counsel are fully recorded in provision. The main legal disputes are the following:

COFINS ("Social security financing tax") - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

PIS ("Social integration program tax") - Challenge of the levy of PIS established by Constitutional Amendments 10 of 1996 and 17 of 1997.

CSL ("Social contribution tax") - Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

As at June 30, 2012, Banco BTG Pactual and its subsidiaries were parties to tax lawsuits with a possible outcome, which were not recorded in provision. The description of the main lawsuits is as follows:

Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R$ 264.8 million.

The challenge of Central Bank of Brazil and day-trade derivatives transactions, from 2002 to 2004. The amount claimed is R$ 280.9 million.

Administrative proceedings challenging the tax assessment by the São Paulo Local Government, charging ISS on services provided in Rio de Janeiro, as the tax authority from the city of São Paulo understands that such services were effectively rendered in São Paulo. The amount claimed is R$ 84.4 million.

ii. Provision for other contingent liabilities (Note 15 c)

Refer to civil, labor and other contingencies

As at June 30, 2012, Banco BTG Pactual and its subsidiaries were parties to other lawsuits with a possible outcome, which were not recorded in provision. The description of the main lawsuits is as follows:

Lawsuits relating to the demutualization and IPO of Bovespa and BM&F, challenging the taxation of PIS, Cofins, income tax and social contribution on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$ 84.2 million.

In thousands of reais

17. Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

Income tax and social contribution	2nd Quarter 2012	2nd Quarter 2011	1st Semester 2012	1st Semester 2011
Tax base	290,684	375,146	1,023,207	738,132
Income before taxes and profit sharing	781,494	464,940	1,833,429	936,499
Statutory profit sharing	(270,810)	(89,794)	(590,222)	(198,367)
Interest on equity	(220,000)	-	(220,000)	-
Total charge of income tax and social contribution at the current rates	(116,274)	(150,058)	(409,283)	(295,253)
Permanent (additions) / deductions in taxation calculation	119,619	(2,333)	112,165	(10,232)
Equity in the earnings of subsidiaries and associated companies in Brazil	99,118	-	107,377	-
Income/(loss) of foreign exchange on foreign investments	44,507	(14,209)	30,902	(21,818)
Foreign earnings	(727)	-	(1,013)	-
Dividends	11,559	10,914	11,774	11,108
Other Permanente (additions) / deductions	(34,838)	962	(36,875)	478
Temporary (additions) / deductions on the taxation calculation	(178,942)	68,881	(113,584)	100,129
Reversal of provision for goodwill on the acquisition of investments	31,168	92,666	91,772	185,330
Interest on equity	(88,000)	-	(88,000)	-
Marked-to-market evaluation of securities and derivatives	(15,304)	31,877	(18,251)	29,393
Allowance for loan losses	(12,275)	(2,804)	(20,947)	(5,516)
Tax contingencies and provision for suspended-payment taxes	(6,909)	(4,643)	(18,815)	(11,084)
Losses on branch abroad	(3,365)	-	77,987	-
Other provisions	(84,257)	(48,215)	(137,330)	(97,994)
Offset of tax loss carry forwards	(32,856)	(7,373)	(88,896)	(31,751)
Income tax and social contribution expense	(142,741)	(76,137)	(321,806)	(173,605)
Temporary differences				
Recognition / (reversal) of the period	177,414	(54,091)	179,471	(86,942)
Recognition / (reversal) on losses in Brazil	(32,856)	(7,374)	(88,896)	(31,752)
Recognition of loss on investment abroad	9,621	-	(65,621)	-
Expenses) / revenues from deferred taxes	154,179	(61,465)	24,954	(118,694)
Total revenues / (expenses)	11,438	(137,602)	(296,852)	(292,299)

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization..

Changes in deferred tax assets, in item “Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	12/31/2011	Recognition	Realization	06/30/2012
Tax loss carryforwards	351,772	12,366	(166,883)	197,255
Allowance for loan losses	76,033	55,495	(34,548)	96,980
Marked-to-market evaluation of securities and derivatives	3,576	353,883	(335,632)	21,827
Interest on equity	-	88,000	-	88,000
Goodwill on the acquisition of investment	620,412	-	(91,772)	528,640
Tax contingencies and provision for suspended-payment taxes	129,049	18,815	-	147,864
Other temporary differences	137,414	170,041	(44,811)	262,644

1,318,256	698,600	(673,646)	1,343,210

In thousands of reais

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2012	152,908	132,699	285,607
2013	343,480	150,556	494,036
2014	195,616	-	195,616
2015	182,555	-	182,555
2016 onwards	185,396	-	185,396
			1,343,210
Present value	802,081	244,528	1,046,609

Deferred tax obligations, are R$ 55,880 (December 31, 2011 - R$ 48,720), and were recognized as described in note 15(b).

18. Shareholders equity

a. Capital

As at June30, 2012 and 2011, fully subscribed and paid in capital consists of 2,648,400,000 shares (December 31, 2011– 2,400,000,000), of which 1,368,504,000 commom shares (December 31, 2011– 1,200,160,000), 464,045,596 class A preferred shares (December 31, 2011– 298,445,596) and 815,850,404 class B preferred shares (December 31, 2011– 901,394,404), all registred and without nominal value.

In the special shareholders meeting held on December 31, 2011 approved the capital increase of R$ 271,150. This decision was approved by BACEN on April 16, 2012.

In the special shareholders meeting held on April 02, 2012 the capital increase was approved without an issuance of shares in the total amount of R$ 650,000 through the incorporation of the statutory reserve. In the board of directors meeting held on April 24, 2012 was approved (i) the capital increase of R$ 2,070,000 was approved through the issuance of 82,800,000 commom shares and 165,600,000 preferred shares and (ii) conversion of 85,544,000 Class B preferred shares into common shares. These decisions were approved by the central bank in June 29, 2012.

The common shares have right to one vote each in the deliberations of the General Assembly and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement ,without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in aquisition public offer due to transfer of control of the Company, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

In thousands of reais

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Company without deliberation and board or shareholders meeting , provided that (i) such conversion occurs at the time of issuance of new shares by the Company whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual SA Holding) (ii) upon conversion, BTG Pactual SA Holding (or its successor in any capacity, including by virtue of merger, division or other reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Company and (iii) conversion is in accordance with the Company's shareholders' agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Company is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the Company's shareholders' agreement.

b. Legal reserve

This reserve is established at the rate of 5% of net income for the exercise, before any other allocation, limited to 20% of the capital.

c. Statutory reserve

In outstanding with the Bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

d. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

e. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income for the year adjusted in accordance with Article 202 of Law 6404/76.

On June 30, 2012 the Bank provisioned R$ 181,610, relating to dividends on profits of the semester and R$ 220,000, related to interest on capital. These amounts were approved in the Board of Directors Meeting of August 8, 2012.

f. Reconcilation of net income (loss) and shareholders equity

	Shareholders' equity		Net income (loss)			
			2nd Quarter		1st Semester	
	06/30/2012	12/31/2011	2012	2011	2012	2011
Banco BTG Pactual S.A.	8,935,866	6,343,965	522,679	225,955	923,511	434,244
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Panamericano S.A.(*)	17,677	(4,203)	(770)	11,589	21,877	11,589
Banco BTG Pactual S.A. Consolidated	8,953,543	6,339,762	521,909	237,544	945,388	445,833

(*) The consolidated information reported by Banco Panamericano S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from loan assignment transactions from Panamericano to FIDCs are eliminating, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Panamericano through the equity method of accounting.

In thousands of reais

19. Income from services rendered

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Management fee and performance premium from investment funds and portfolios	214,584	100,313	418,977	194,058
Brokerage	15,698	19,657	55,491	42,623
Technical services	30,824	98,436	80,534	182,879
Commission on the placement of securities	130,930	41,563	156,787	52,722
Guarantees	21,813	-	40,762	10,717
Other services	2,040	15,144	9,350	15,144
	415,889	275,113	761,901	498,143

20. Other operating income

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Recovery of charges and expenses	169	50	1,942	142
Reversal of provision – employees' profit sharing	-	-	70	-
Reversal of allowances - other	1,112	(544)	7,325	169
Income (loss) from the sale of electricity	74,641	55,384	152,098	90,834
Reversal of provision - contingencies	225	3,770	4,249	7,036
Adjustment to inflation of court deposits	6,948	903	19,108	6,368
Income from loans - Abroad	-	3,703	-	3,703
Adjustment to inflation of deposits – other	3,923	10,804	13,644	10,804
Other operating income	13,495	1,184	14,482	9,378
	100,513	75,254	212,918	128,434

21. Other operating expenses

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Other operating provisions	1,500	9,686	10,680	9,686
Expenses with taxes adjusted for inflation	45	1,780	1,279	4,687

In thousands of reais

Exchange rate variation	3,450	-	9,335	-
Reimbursement of clients	226	7,622	582	7,622
Adjustment of amounts payable for acquisition of goods and rights (i)	15,873	-	28,061	-
Goodwill amortization (ii)	116,764	-	116,764	-
Other	1,272	4,115	33,494	9,759
	139,130	23,203	200,195	31,754

(i) Refers to update of amount payable for the acquisition of investments.
(ii) On June 30, 2012 goodwill was fully amortized based on (a) realization of goodwill of COOMEX based on its useful economic life (R$ 69,509) and (b) impairment on other goodwill (R$ 46,927 – see Note 13).

In thousands of reais

22. Other administrative expenses

	2nd Quarter		1st Semester	
	2012	2011	2012	2011
Outsourced services and consulting	103,278	22,838	143,198	43,206
Telecommunications and data proc	26,812	18,487	49,078	36,960
Leases and condominiums	15,866	4,150	25,384	9,616
Travel and Lodging	11,547	5,557	19,253	9,507
Expenses of the financial system	7,176	4,852	13,200	12,034
Advertising and Public Relations	8,941	2,428	12,258	2,988
Depreciation and amortization	5,808	-	10,955	-
Other	8,159	14,335	17,805	22,864
	187,587	72,647	291,131	137,175

In thousands of reais

23. Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, carried at arm's length, are reflected in the following accounts:

			Assets/Liabilities		Revenues/Expenses	
	Relationship	Maturity	06/30/2012	12/31/2012	1st Semester - 2012	1st Semester - 2011
Assets						
Interbank deposits						
- Banco Panamericano S.A.	Jointly controll	-	-	500,504	5,820	-
Trading securities and derivative financial instruments						
- BTG Investments LP	Associate	-	-	81,334	-	-
Sundry						
- Max Casa XIX Empreendimentos Imobiliários S.A.	Associate	No maturity	4,936	4,936	-	-
- ACS Omicron Empreendimentos imobiliários S.A.	Associate	No maturity	12	12	-	-
- Warehouse 1 Empreendimentos imobiliários S.A.	Associate	No maturity	432	432	-	-
- BW Properties S.A.	Associate	No maturity	958	-	-	-
- BTG Pactual Loanco	Associate	No maturity	1,336	-	-	-
- BTG Pactual Stigma Participações S.A.	Associate	-	-	-	-	-
- BTG Alpha Investments LLC	Associate	-	-	-	-	-
- BTG Pactual Absolute Master Fund	Associate	No maturity	4,900	-	-	-
- Banco Panamericano S.A.	Jointly controll	No maturity	-	-	7,971	-
Liabilities						
Deposits						
Demand deposits						
- BTG Pactual Europe LLP	Associate	No maturity	(26,447)	-	-	-
- BTG Pactual International Port Fund	Associate	No maturity	(349,865)	-	-	-
- BTG Pactual Proprietary Feeder (1) Limited	Associate	No maturity	(264)	(249)	-	-
- BTG Investments LP	Associate	No maturity	(6,034)	(2,120)	-	-
- BTG Pactual Stigma Participações S.A.	Associate	-	-	(16)	-	-
- BTG Pactual Reinsurance Holdings LP	Associate	No maturity	(961)	(939)	-	-
- BTG MB Investments LP	Associate	No maturity	(58,844)	(9,425)	-	-
- BTG Pactual US AM Corp.	Associate	No maturity	(27,453)	-	-	-
- BTG Pactual Absolute Master Fund	Associate	No maturity	(9,224)	-	-	-
- BTG Pactual Overseas Corporation	Associate	No maturity	(6,299)	(5,845)	-	-
- BTG Equity Investments LLC	Associate	No maturity	(62,945)	-	-	-
- BTG Pactual Stigma LLC	Associate	No maturity	(135)	(140)	-	-
- BTG Alpha Participações Ltda.	Associate	No maturity	(69)	(70)	-	-
- BTG Alpha Investments LLC	Associate	No maturity	(26,854)	(1,029)	(1,501)	-
- Partners	Partners	-	-	(449)	-	-
Interbank deposits - associate						
- Banco Panamericano S.A.	Jointly controll	-	-	-	(47,773)	-
Time deposits						
- BTG Pactual Alpha Participações Ltda.	Associate	6/7/2013	(3,198)	(258)	(91)	-
- BTG Pactual Stigma Participações S.A.	Associate	-	-	(110)	-	-
- BTG Pactual Beta Participações S.A.	Associate	6/24/2013	(1,099)	(1,459)	(50)	-
- BTG Pactual Pharma Participações S.A.	Associate	6/24/2013	(423)	(1,702)	(14)	-
Open market funding						
Third-party portfolio						
- Banco Panamericano S.A.	Jointly controll	7/2/2012	(14,996)	(9,999)	5,327	-
Own portfolio						
- Banco Panamericano S.A.	Jointly controll	-	-	(629,374)	-	-
Derivative financial instruments						
- Banco Panamericano	Jointly controll	4/22/2020	(60,916)	-	(50,495)	-
Securities trading and brokerage			-	-	-	-
- BTG Investments LP	Associate	-	-	(69,420)	-	-
Sundry						
- FIP Saude	Associate	No maturity	(567)	-	-	-

In thousands of reais

Total compensation paid to key management personnel totaling this semester R$ 43,037 (2011 – R$ 5,135) which is considered short term benefit.

24. Other information

a. Cash and cash equivalents

	12/31/2011	12/31/2010
Balances at the beginning of the period		
Cash and cash equivalents	517,305	1,522,813
Open market investments	11,424,916	17,398,454
Interbank deposits	545,196	4,103
	12,487,417	18,925,370
Balances at the end of the period	**06/30/2012**	**12/31/2011**
Cash and cash equivalents	311,557	201,220
Open market investments	20,256,799	29,037,140
Interbank deposits	1,105,244	35,300
	21,673,600	29,273,660

b. Commitments and responsabilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	06/30/2012	12/31/2011
Co-obligation and risks for guarantees granted	5,548,657	1,573,911
Responsibility for the management of futures and investment portfolio (i)	143,713,330	142,921,539
Securities under custody	276,730,443	138,575,986
Securities trading and brokerage	1,063,883,494	1,397,307,986
Loans contract to release	2,045,900	-

(i) Recognized by the sum of the equity values of funds and investment porfolios

The item "Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or allocated to exchange trading securities.

The item "Securities under custody" reflects third-party public and private security positions under custody with SELIC, CETIP S.A. and BM&FBovespa S.A.

The item "Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

The item "Loans contracted to release" register amounts related to laons contracted with clients to release.

25. Subsequent events

On July 19, shareholders of Brazilian Finance & Real Estate SA ("BFRE") approved the splitting of the company, through which the Bank took control of the Brazilian Capital Companhia de Gestão de Investimento, as described in Note 2.

Consolidated financial statements

Banco BTG Pactual S.A.

December 31, 2011 and 2010
with independent auditors' report on financial statements

BANCO BTG PACTUAL S.A.

Consolidated financial statements

December 31, 2011 and 2010

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A free-translation from Portuguese into English of auditors' report issued on financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and in Reais.

Independent auditors' report on financial statements

To the
Board of Directors and Shareholders
Banco BTG Pactual S.A.

We have audited the accompanying consolidated financial statements of Banco BTG Pactual S.A., which comprise the consolidated balance sheet as at December 31, 2011 and the related consolidated statements of income, changes in shareholders' equity and consolidated cash flows for the year then ended, and a summary of significant accounting practices and other notes to financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. as at December 31, 2011, the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis

As mentioned in Note 29 of its financial statements, as of December 31, 2011 the jointly controlled subsidiary Banco Panamericano S.A. regulatory operating limits are not in compliance with those required by the Central Bank of Brazil. During 2011, funds amounting to R$ 1,300 million were contributed by the shareholders and a shareholder's deposit was also made in the amount of R$ 620 million for asset recovery purposes. Additionally, in January 2012 a capital increase of up to R$ 1,800 million was approved, of which R$ 972 million were subscribed for and paid on January 31, 2012.

As of December 31, 2011, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution tax credits amounting to R$ 2,575 million, recognized on the basis of financial projections and business plan reviewed and approved by its Board of Directors, which comprise a study of the current environment and future scenarios of assumptions used in these projections. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A.

As described in Note 2, Banco BTG Pactual S.A. has fully merged with the BTG Participações II S.A. Pursuant to rules established by the Central Bank of Brazil, we have examined the procedures adopted in the merger processes, which, in our opinion, are in accordance with regulating standards.

As described in Note 2, Banco BTG Pactual S.A. has fully merged with the Copacabana Prince Participações S.A. Pursuant to rules established by the Central Bank of Brazil, we have examined the procedures adopted in the merger processes, which, in our opinion, are in accordance with regulating standards.

Other matters

We have also audited the consolidated statement of value added (SVA), for the year ended December 31, 2011, the presentation of which is required by Brazilian Corporate Law for publicly-held companies. This statement have been subject to the same auditing procedures previously described, and in our opinion, is fairly presented, in all material respects, in relation to the overall consolidated financial statements.

Rio de Janeiro, February 29, 2012

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ

Flávio Serpejante Peppe
Partner

BANCO BTG PACTUAL S.A.

Consolidated balance sheets
December 31, 2011 and 2010
(in thousands of reais)

	NOTE	2011	2010
Assets			
Current assets		72,109,850	69,347,301
Cash and cash equivalents	6	517,305	1,522,813
Short-term interbank investments	7	19,568,249	25,209,316
Open market investments		18,624,436	25,122,576
Interbank deposits		943,813	86,740
Marketable securities and derivative financial instruments		38,630,309	35,955,633
Own portfolio	8	14,157,694	9,358,853
Subject to repurchase agreements	8	21,055,304	22,896,953
Subject to freely tradable repos	8	12,560	-
Derivative financial instruments	9	2,582,253	1,948,939
Subject to guarantees	8	822,498	1,750,888
Interbank transactions		874,879	99,740
Deposits with Central Bank of Brazil		874,053	99,709
Correspondents		826	31
Loans	10	2,972,442	2,233,931
Loans – private sector		3,014,674	2,261,385
Allowance for loan losses		(42,232)	(27,454)
Other receivables		9,521,541	4,283,345
Foreign exchange portfolio	11	145,565	1,216,971
Income receivable	12	356,677	223,625
Securities trading and brokerage	11	4,402,981	1,989,503
Sundry	12	5,240,085	854,095
Allowance for losses on other receivables	11	(623,767)	(849)
Other assets		25,125	42,523
Temporary investments		-	21,682
Other assets		18,591	18,541
Prepaid expenses		6,534	2,300
Long-term assets		8,496,825	3,166,469
Short-term interbank investments	7	14,787	-
Interbank deposits		14,787	-
Marketable securities and derivative financial instruments		4,263,594	106,167
Own portfolio	8	2,375,915	-
Derivative financial instruments	9	475,107	106,167
Subject to guarantees	8	1,412,572	
Interbank transactions		1,853	34,406
Restricted credits – Financial System of Accreditation		1,853	34,406
Loans	10	1,692,638	1,467,743
Loans – private sector		1,732,754	1,520,957
Allowance for loan losses		(40,116)	(53,214)
Other receivables		2,523,953	1,558,153
Foreign exchange portfolio	11	630,610	56,036
Income receivable	12	34,805	-
Securities trading and brokerage	11	781	113
Sundry	12	1,897,121	1,532,320
Allowance for losses on other receivables	11	(39,364)	(30,316)
Permanent assets		1,405,334	393,131
Investments		1,131,018	4,929
Investments in associates and jointly controlled entities		1,125,292	-
Other investments		8,713	7,916
Allowance for losses		(2,987)	(2,987)
Property and equipment in use		58,403	197,883
Other property and equipment in use		100,539	224,678
Accumulated depreciation		(42,136)	(26,795)
Deferred charges		12,371	15,444
Amortization and expansion costs		28,801	28,800
Accumulated amortization		(16,430)	(13,356)
Intangible assets		203,542	174,875
Other intangible assets		208,940	176,663
Accumulated amortization		(5,398)	(1,788)
Total assets		82,012,009	72,906,901

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Consolidated balance sheets
December 31, 2011 and 2010
(in thousands of reais)

	NOTE	2011	2010
Liabilities			
Current liabilities		64,936,753	65,141,738
Deposits	14	11,512,454	9,414,808
Demand deposits		1,574,208	2,312,891
Interbank deposits		572,761	338,891
Time deposits		9,365,485	6,750,196
Other deposits		-	12,830
Open market funding	14	39,060,989	41,188,919
Own portfolio		22,838,450	24,182,649
Third-party portfolio		13,692,426	7,392,980
Free-trading portfolio		2,530,113	9,613,290
Funds from securities issued and accepted	14	1,703,462	1,233,358
Real estate bonds		1,518,581	1,227,339
Liabilities for foreign securities		184,881	6,019
Interbank transactions		30	1
Unsettled receipts and payments		30	1
Loans and onlending	14	916,591	110,814
Loans abroad		875,094	55,161
Onlending In Brasil – officiall institutions			
FINAME		41,497	55,653
Derivative financial instruments	9	2,523,524	1,965,767
Derivative financial instruments		2,523,524	1,965,767
Other liabilities		9,219,703	11,228,071
Collection and payments of tax and similar charges		2,666	19,841
Foreign exchange portfolio		224,381	1,162,107
Social and statutory	15	552,761	230,601
Tax and social security	15	238,783	107,363
Securities trading and brokerage		7,921,906	9,528,952
Sundry	15	279,206	179,207
Long-term liabilities		10,491,697	2,138,280
Deposits	14	2,698,606	1,158,736
Interbank deposits		3,644	-
Time deposits		2,694,962	1,158,736
Funds from securities issued and accepted	14	2,071,169	72,140
Real estate bonds		1,106,410	72,140
Liabilities for foreign securities		964,759	-
Loans and onlending	14	3,125	44,447
Onlending in Brasil – officiall institutions - FINAME		3,125	44,447
Derivative financial instruments	9	430,265	199,919
Derivative financial instruments		430,265	199,919
Other liabilities		5,288,532	663,038
Foreign exchange portfolio		-	54,172
Social and statutory	15	445	41,443
Tax and social security	15	521,157	442,811
Securities trading and brokerage		8,128	13,695
Subordinated debt	14	4,158,295	-
Sundry	15	600,507	110,917
Deferred income		31,590	24,290
Minority shareholding		212,207	-
Shareholders' Equity	18	6,339,762	5,602,593
Capital			
Domiciled in Brazil		2,132,664	2,494,701
Domiciled abroad		838,686	476,649
Capital increase		271,150	-
Income reserves		3,097,262	2,631,243
Total liabilities and equity		82,012,009	72 ,906,901

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of income
Years ended December 31, 2011 and 2010
(in thousands of reais, except net income per share)

	NOTE	2011	2010
Financial income		5,836,108	3,510,138
Loans		945,572	327,222
Marketable securities		4,589,133	2,698,331
Derivative financial instruments		10,985	415,825
Foreign exchange		249,322	68,760
Mandatory investments		41,096	-
Financial expenses		(4,549,660)	(2,428,516)
Funding operations		(4,002,023)	(2,458,926)
Borrowing and onlending		(517,615)	37,440
Allowance for losses on loans and other receivables		(30,022)	(7,030)
Gross financial income		1,286,448	1,081,622
Other operating income (expenses)		388,445	340,642
Income from services rendered	19	1,107,568	803,014
Personnel expenses		(359,663)	(227,700)
Other administrative expenses		(355,462)	(255,204)
Tax charges		(286,040)	(188,287)
Equity pick up from associates	13	(3,531)	-
Other operating income	20	372,146	238,688
Other operating expenses	21	(86,573)	(29,869)
Operating income		1,674,893	1,422,264
Non-operating income		9,217	(366)
Income before tax and profit sharing		1,684,110	1,421,898
Income and social contribution tax	17	199,099	(381,552)
Provision for income tax		(116,641)	(69,233)
Provision for social contribution		(54,625)	(39,644)
Deferred tax assets		370,365	(272,675)
Statutory profit sharing		(401,229)	(229,440)
Minority shareholding		(4,960)	-
Net income for the year		1,477,020	810,906
Interest on equity		319,000	15,440
Quantity of shares in circulation at end of year		2,400,000,000	2,400,000,000
Net earnings per share - R$		0.62	0.34

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of changes in shareholders’ equity - Controller
Years ended December 31, 2011 and 2010
(in thousands of reais, except the dividend value per share)

BANCO BTG PACTUAL S.A.

Statements of cash flow
Years ended December 31, 2011 and 2010
(in thousands of reais)

	NOTE	2011	2010
Operating activities			
Net income for the year		1,477,020	810,906
Adjusted net income		22,221	14,704
Equity pickup from subsidiaries	13	3,531	-
Depreciation and amortization		18,690	14,704
Adjusted net income for the year		1,499,241	825,610
(increase)/decrease in short-term interbank investments		969,309	(5,704,034)
(increase)/decrease inmarketable securities and derivative financial instruments		(6,044,000)	(29,175,587)
(increase)/decrease in loans		(963,406)	(2,330,468)
(increase)/decrease in other receivables and other assets		(6,186,598)	(2,275,006)
(increase)/decrease in interbank transactions		(742,557)	(108,507)
(Decrease)/increase in other liabilities		2,617,126	9,124,296
(Decrease)/increase in deferred income		7,300	15,893
Cash generated from/(used) in operating activities		(8,843,585)	(29,627,803)
Investing activities			
Sale of investment		296	-
Sale of equity		250,022	-
Sale of property and equipment in use		66,582	-
Acquisition of investment acquisition		(1,094)	(687)
Acquisition of equity interests		(1,128,823)	-
Acquisition of property and equipment in use		(122,918)	(177,086)
Capital increase in subsidiaries		-	238
Acquisition of intangible assets		(98,490)	(173,890)
Dividends received			
		(1,034,425)	(351,425)
Cash generated from/(used) in investing activities			
Financing activities		3,637,516	5,050,829
Increase/(decrease) in deposits		(2,127,930)	32,132,303
Increase/(decrease) in open market funding		764,455	93,990
Increase/(decrease) in loans and onlending		2,469,133	975,288
Increase/(decrease) in funds from securities issued and accepted		271,150	2,409,264
Capital increase due to share issuance		212,207	-
Interest in paid in capital		(319,000)	(15,440)
Distributed dividends		(692,000)	(846,637)
Cash generated/(used) in the financing activities		4,215,531	39,799,597
Increase/(decrease) in cash and equivalent		(5,662,479)	9,820,369
Balance of cash and cash equivalent			
At beginning of the year	23	18,149,896	8,329,527
At end of the year	23	12,487,417	18,149,896
Increase/(decrease) in cash and equivalent		(5,662,479)	9,820,369

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of added-value
Years ended December 31, 2011 and 2010
(in thousands of reais)

	NOTE	2011	2010
Income		7,238,467	4,521,605
Financial brokerage		5,836,108	3,510,138
Services rendered		1,107,568	803,014
Other		294,791	208,453
Expenses		(4,549,660)	(2,428,516)
Financial brokerage		(4,549,660)	(2,428,516)
Inputs acquired from third parties		(313,446)	(225,584)
Materials, energy and other		(8,386)	(6,258)
Outsourced services		(305,060)	(219,326)
Gross value added		2,375,361	1,867,505
Depreciation and amortization		(18,690)	(14,704)
Net value added produced by institution		2,356,671	1,852,801
Value added received in transfer		(3,531)	-
Equity pickup from subsidiary shareholding	13	(3,531)	-
Value added to be distributed		2,353,140	1,852,801
Distribution of value added		2,353,140	1,852,801
Personnel		760,892	457,140
Direct remuneration		727,028	428,489
Benefits		22,414	16,194
FGTS – government severance indemnity fund for employees		11,450	12,457
Tax, levies and contributions		86,933	569,832
Federal		46,969	539,851
Municipal		39,964	29,981
Remuneration from third-party capital		23,336	14,923
Rent		23,336	14,923
Remuneration from own capital		1,481,979	810,906
Interest on equity		319,000	15,440
Dividends		692,000	473,000
Retained earnings		466,019	322,466
Income		4,960	-

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Notes to the consolidated financial statements
December 31, 2011 and 2010
(in thousands of reais)

1. Operating context

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating in conjunction with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and investment portfolios, credit, financing and investment, leasing and home loans.

The transactions are conducted as part of a group of institutions participating fully in the financial market, and certain transactions are intermediated by other institutions in the BTG Group.

On November 10, 2011, the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários, CVM) granted the Bank a registration as a public company in category A.

2. Corporate restructuring

Corporate reorganizations

On April 26, 2010 the Bank merged its controlled company BTG Pactual Investimentos S.A., for its equity book value on March 31, 2010, provided that the transaction did not result in increase in the capital stock, however, the goodwill ascertained in the acquisition of the Bank generated a tax credit of R$ 87,183, recognized in the act of incorporation, approved by BACEN on December 21, 2010.

On June 15, 2011, the subsidiary of BTG Pactual Banking Limited, located in the Cayman Islands, was transformed into the Bank's branch.

On July 27, 2011, the Central Bank of Brazil (*Banco Central do Brasil*, Bacen) approved the indirect acquisition by the Bank of the shares representing the total capital of (i) BTG Pactual Asset Management Corp USA, established in New York, USA; (ii) BTG Pactual Asia Ltd, domiciled in Hong Kong, China; (iii) BTG Pactual Capital Corp USA, incorporated in Delaware, USA; (iv) BTG Pactual Global Asset Management Ltd, domiciled in Bermuda; (v) BTG Pactual Carry LP, domiciled in George Town, Ilhas Cayman, (vi) and of 99.3% of shares representing the capital BTG Pactual Europe LLP, domiciled in London, England. These transactions were approved in the Ordinary General Shareholders Meeting held on August 31, 2011, Previously, the controlling company of such companies was BTG Investments LP. As they are companies belonging to the same economic group, no premium or discount was verified in these transactions.

On December 14, 2011 the merger of BTG Pactual Participações II S.A. by the Bank approved, without resulting in the capital increase of the Bank.

On December 31, 2011, following with BTG Group's restructuring process, the Bank proceeded with the merger of its controlling company Copacabana Prince Participações S.A. As a result of such transaction, R$ 481,369 were accounted relating to the tax benefit relating to goodwill originally registered at Copa Prince.

Acquisitions

On September 20, 2010, the Bank acquired all Coomex Empresa Operadora do Mercado Energético Ltda. shares, which operates and has an outstanding position in the national power industry in marketing and rendering of special power services. The acquisition constitutes an important step taken by BTG Pactual in the merger of a physical and financial trading structure of commodities and expands the product mix connected to power offered to its clients. After the aquisition the company name was altered to BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex).

On September 2011, the full subsidiary, Coomex proceeded with the reverse merged of its controlled company BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Group registered a tax benefit of R$ 54,813.

On May 27, 2011, the Bank acquired all shares of Silvio Santos Group in Banco Panamericano S.A. (Panamericano), representing 37.64% of the retail institution, resulting from an interest of 51% in ordinary shares and 21.97% in preferred shares, Upon conclusion of this transaction and the corresponding BACEN approval, the Bank and the Caixa Econômica Federal (CEF), now hold a shared control over Panamericano, as defined by shareholders agreement.

On June 17, 2011, Banco BTG Pactual S.A. presented to the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*, CVM), a request for registration of tender offer of preferred shares issued by Panamericano to the remaining shareholders, for the same price paid for the share to the previous controlling shareholder. As the necessary adhesion did not occur, the program was terminated.

On November 22, the agreement between the Bank and WTorre Properties S.A. ("WTorre") was concluded. Due to this agreement, the Bank now holds, indirectly through its subsidiary Saíra Diamante S.A., 49.99% of the corporate interest in One Properties S.A. (previously referred to as WTorre). In this transaction, Saíra contributed R$ 627,452 in assets, originally held by the Bank. In this transaction, the Bank registered a goodwill of R$ 320,956, based on expected future profitability.

3. Financial statements presentation

The Bank’s consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Brazilian Central Bank (BACEN), in accordance with the regulations and instructions of the National Monetary Council (CMN), the Central Bank of Brazil (BACEN) and the Brazilian Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated Financial Statements comprise the financial statements of the Bank, its overseas branches, subsidiaries, directly or indirectly, in the country and abroad, as well as investment funds and special purpose entities (SPE).

The preparation of financial statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions regulated by the Brazilian Central Bank, requires the Management to use its judgment to determine and register accounting estimates. The assets and liabilities subject to these estimates and assumptions refer, basically, to the income tax on assets and liabilities deferred charges, to the allowance for taxes and contributions with suspended eligibility and the allowance for contingent liabilities. The settlement of transactions involving these estimates may result in values different from the estimated, due to inaccuracies related to the process for its determination. The adopted estimates and assumptions are periodically reviewed by Management.

a. Consolidated financial statements

The consolidated financial statements were prepared in accordance with the consoidation criteria issued by the BACEN. Investments, the balances of assets and liabilities, revenues, expenses and unrealized profits among the companies, were eliminated, and were highlighted the net income and shareholders' equity relating to minority shareholders.

In addition to the criteria defined by the Brazilian Central Bank as of December 31, 2010, the management of the Bank adopted the consolidation criteria determined by the CVM Resolution 668/11, which states that investment funds should be consolidated. Consequently, the exclusive investment funds of consolidated companies were consolidated as from December 31, 2010.

The goodwill on acquisition of investments in subsidiaries and jointly controlled companies are shown as investments and intangible, while negative goodwill are presented as deferred income.

Investments in jointly controlled companies are recognized by the equity method.

Below are presented the subsidiaries and jointly controlled companies, consolidated in the consolidated financial statements of the Bank:

(in thousands of reais)

		Share in total capital - %	
	Country	2011	2010
Directly controlled			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Agente Comercializador de Energia Ltda.(***)	Brazil	-	99.96
BTG Pactual Corporate Services Ltda(**)	Brazil	99.99	99.99
BTG Pactual Banking Limited (*)	Cayman	-	100.00
BTG Pactual Empresa Operadora do Mercado Energético Ltda. - Coomex	Brazil	99.99	99.99
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTGP Recovery Holdings S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation(**)	Cayman	100.00	100.00
BTG Pactual Vivere Participações S.A.	Brazil	100.00	-
BW Properties S.A.	Brazil	67.49	-
Saíra Diamante Empreendimentos Imobiliários S.A.	Brazil	92.00	-
Global Ltd	Cayman	100.00	-
Indirectly controlled			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Serviços Energéticos Ltda.- Coomex	Brazil	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	-
BTG Pactual Europe LLP	England	100.00	-
BTG Pactual Asset Management US, LLC	EUA	100.00	-
BTG Pactual US Capital, LLC	EUA	100.00	-
BTG Pactual Asia Limited	Hong Kong	100.00	-
BTG Global Asset Management (UK) Limited	England	100.00	
Recovery do Brasil Consultoria S.A.	Brazil	50.24	-
FC DAS S.A.	Uruguay	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	99.83	99.83
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	100.00	100.00
BTG Pactual Vanguarda Fundo de Investimento em Participações	Brazil	92.73	92.73
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	100.00	100.00
Nala Fundo de Investimento em Participações	Brazil	100.00	100.00
BTG Pactual Global Fund	Cayman	100.00	-
Fundo de Investimento em direitos Creditórios Multisegmentos	Brazil	100.00	-

(i) On June 15, 2011, BTG Pactual Banking Limited became a branch.
(ii) On December 31, 2010, BTG Pactual Overseas Corporation was classified within the indirect controlled group.
(iii) As of September, 2011 BTG Pactual Agente Comercializador de Energia Ltda was acquired by Pactual Empresa Operadora do Mercado Energético Ltda.

b. Functional currency

The items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in reais (R$), which is the Bank's functional currency. The closing date rate was used for translation of assets and liabilities, while the income statement is converted at the average rate of the period.

The financial statements of the companies headquartered abroad, originally stated in their transnational currencies, and were translated into Brazilian reais at the US dollar foreign exchange rate at the date of the financial statements.

In the financial statements, the effects of foreign exchange variations on investments are distributed in the income statement accounts according to their respective nature.

4. Significant accounting practices

The most relevant accounting practices adopted by the Bank are as follows:

a) Cash and cash equivalents

For the purposes of statements of cash flow, includes, according to Conselho Monetário Nacional - CMN Resolution No. 3,604/08, money in cash, banking deposits, and high liquidity short term investments, with immaterial risk of value change, with due date equal or inferior to 90 days.

b) Short-term interbank investments, remunerated Bacen deposits, remunerated deposits, open market funding, funds from securities issued and accepted, loans and onlendings, subordinated debts and other asset and liability transactions

The transactions with clauses of monetary/foreign exchange appraisal and transactions with fixed interest rates are recorded by the net present value of any transaction costs incurred, calculated on a pro rata daily basis, based on the effective interest of transactions.

c) Securities

Are valued and classified in accordance with the criteria established by BACEN Circular n° 3,068/01, under the following categories:

(i) Securities held for trading

Acquired with the purpose of being actively and frequently traded. Are registered by the acquisition cost, plus earnings and adjusted by their market value, against the result of the period.

(ii) Securities available for sale

Cannot be classified as trading nor as held to maturity. Are recorded at acquisition cost, plus earnings, against income and further valued at market value against shareholders' equity specific account, net of tax effects, which will only be recognized in the result at the time of their effective realization.

(iii) Securities held to maturity

Acquired with intention and financial capacity to be maintained in portfolio up to their maturity date. Recorded at acquisition cost, plus earnings against result of the period.

Decreases in market value of securities available for sale and maintained up to their maturity, below their respective restated costs, related to reasons considered as not temporary, will be reflected in the income statement as realized losses.

According to BACEN Circular No. 3,068, of November 8, 2001, securities classified as securities for trading are recorded in the Balance Sheet, in Current Assets, regardless of their maturity.

d) Derivative financial instruments

Are classified in accordance with the Management's intention, at the date the transaction is retained, taking into account if its purpose is hedge or not.

The transactions using financial instruments performed on their own, or that does not comply with the hedge criteria (mainly derivatives used to manage the global risk exposure), are accounted by their fair value, with gains and losses, realized or not realized, recognized directly in the results for the period.

The derivative financial instruments used to mitigate the risks arising from exposure to variations in the market value of financial assets and liabilities and that are highly correlated in relation to alterations in their market value in relation to the market value of the item that is being protected, in the beginning as well as during the life of the agreement and deemed as effective in the reduction of risk associated to the exposure to be protected, are deemed as hedge and are classified in accordance with their nature in:

Market risk hedge: financial instruments included in this category, as well as their related financial assets and liabilities, subject to hedge, are measured at fair value and have their realized or not realized gains and losses, recorded in income statement account; and

Cash flow hedge: the instruments included in this category are measured at fair value, being the effective portion of the recorded appreciation or depreciation, net from tax effects, in a separate account within shareholders' equity. The non-effective portion of the respective hedge is distinctively recorded in income statement account.

e) Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or even based on the price determined for other financial instruments with similar characteristics. Therefore, at the time of financial settlement of these transactions, the results may be different from the estimated. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the shares option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, deducted from the difference between this amount and the price of the good or right adjusted at market prices, at the adequate assets or liabilities account. The income and expenses are recorded according to the term of their agreements.

The assets and liabilities resulting from swap and currency forward transactions – of non-delivery forward agreements (NDF) are registered in assets accounts for their accounting value, adjusted at market value, against their results, with no set-off between amounts payable and receivables.

The notional amount of agreements is recorded in set-off accounts.

f) Financial instruments – net presentation

Financial assets and liabilities are presented as net in the balance sheet if, and only if, there is a current and enforceable legal right to set-off the recorded amounts and if there is an intention to set-off, or to simultaneously realize the asset and settle the liability.

g) Loans, and other receivables (transactions with characteristics of loans)

Recorded at current value, calculated daily "pro rata" based on the index variation and on the agreed interest rate, being updated until the 59th day of default for financial companies, provided the expected receipt. As from the 60th day, the recognition in the results occurs at the time of effective receipt of installments. Renegotiated transactions are maintained, at least, in the same level in which they were recorded before the renegotiation and, if they had already been eliminated against provision in allowance, are classified as level H; gains are recorded in income at the time of effective receipt.

h) Allowance for loan losses

Constituted based in the analysis of credit realization risk, in amount deemed as sufficient to cover eventual losses in compliance with the rules established by Resolution No. 2,682, of 12/21/1999, of the CMN, amongst which are highlighted:

Allowances are constituted from loans, based on the classification of the client's risk, due to the periodical analysis of client quality and of activity industries and not only upon default.

Considering exclusively the default, marks down in loans against losses are made after 360 days from the credit due date or after 540 days, for transactions with term exceeding 36 months.

Allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution n° 2,682/99.

i) Investments

Subsidiaries and equity investees companies are evaluated by the assets equivalence method.. Câmara de Custódia e Liquidação (CETIP) securities were updated up to the date of its respective demutualization. Other investments in permanent assets are evaluated by their acquisition cost, minus, when applicable, allowance for losses.

j) Goodwill

Goodwill, based on the forecast of future results of the subsidiáries, is amortized in line with the forecast deadlines that justified it or, when the investment is written off, by disposal or loss, before the forecasts are achieved.

The goodwill is calculated in the group of investments, where it remains until the investment is realized.

The goodwill is calculated based on the difference between the paid acquisition value and the net book value.

k) Property and equipment in use and assets deferred charges

Recorded by their acquisition cost. Depreciation is calculated by the linear method based on the asset’s economic working life period. Deferred charges expenditure corresponds, mainly, to improvements in third party real estate. Payment is calculated by the linear method based on estimated periods of usage and/or lease.

l) Intangible

Corresponds to acquired rights that have as their subject intangible assets destined to the entities’ maintenance or exercised with such purpose, in accordance with CMN Resolution No. 3,642, of 11/26/2008. Payment terms vary from five to ten years.

l) Decrease to the recoverable amount of assets (impairment)

Whenever there is clear evidence that the assets are evaluated by non-recoverable value it is recorded as loss in the results of the period. This procedure is performed at least at the end of each fiscal year.

n) Income and social contribution taxes

Allowances for income and social contribution taxes are constituted based on accounted income, adjusted by increases and exclusions provided by the tax legislation. Income tax and social contribution deferred charges are calculated on the value of temporary differences, whenever the realization of these amounts is considered as probable. For the income tax, the applicable rate is of 15%, plus additional 10% over annual income subject to tax exceeding R$ 240 and of 15% for social contribution.

o) Contingent assets and liabilities, and legal, tax and social security obligations

Are made according to the criteria described below:

Contingent assets

Are not recognized in financial statements, unless there is evidence ensuring their realization and they are based on unappealable decisions.

Contingent liabilities

Are recognized in financial statements when, based in the opinion of legal advisors and management, the risk of loss on a judicial or administrative proceeding is considered probable, and when amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the explanatory notes, while those classified as remote losses do not require the recording of provisions or disclosure.

Legal liabilities – tax and social security

Refer to legal disputes challenging the legal and constitutional nature of some taxes and mandatory contributions. The amount under dispute is measured and accounted for.

p) Earnings per share

Calculated based on the quantity of shares in circulation on the dates of the balance sheets.

q) Recognition of income

The results of transactions are recorded under the accrual method. .

(in thousands of reais)

5. Risk management

a) Operating limits

In accordance with the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology for calculation of the Reference Equity and Required Reference Equity, as from July 1, 2008, through CMN Resolutions 3,444/07 and 3,490/07. In addition, Circulars 3,360/07, 3,361/07 to 3,366/07, 3,368/07, 3,383/08, 3,388/08 and 3,389/08 of BACEN established the guidelines to determine the credit, market and operating risks.

The Basel Index was calculated based on the financial statements prepared in accordance with BR GAAP, on a consolidated basis, including all Bank's subsidiaries.

	2011	2010
Reference Equity ("PR")	8,430,976	5,567,094
	6,331,062	5,602,593
	3,165,531	-
Deductions from Reference Equity	(1,065,617)	(35,499)
Required Reference Equity ("PRE")	5,250,915	2,841,792
Credit risk	3,416,049	1,631,880
Market risk	1,553,458	943,183
Operating risk	281,408	266,729
Exceeding Required Reference Equity	3,180,061	2,725,302
Based Index: ("PR"x100)/"PRE"/0.11)	17.66%	21.55%

Management elected the basic indicator approach to measure the operating risk.

The limit of property, plant and equipment, as determined by CMN Resolution 2,283/96, as amended by Resolution 2,669/99 and with the wording of Resolutions 2,743/00 and 3,426/06, is also calculated on a consolidated basis considering all subsidiaries under the BR GAAP:

	2011	2010
Reference Equity	8,430,976	5,567,094
Equity securities	(6)	(4,276)
Reference Equity for limit of property, plant and equipment (Required Reference Equity)	8,430,970	5,562,818
Limit of proper, plan and equipment (50%)	4,215,485	2,781,409
Status for the limit of property, plant and equipment	3,034,871	2,256,144
Permanent assets	1,409,501	393,088
Deferred permanent assets	(8,772)	(11,073)
Equity securities	(6)	(4,276)
Intangible assets excluded from the limit of property, plant and equipment	-	(174,832)
Investment in associated companies and subsidiaries authorized to operate under BACEN	(427,132)	-
Variable income securities recorded in current assets	2,061,280	2.053,237
Margin	1,180,614	525,265

As at December 31, 2011 and 2010, all operating limits were duly complied.

b) Market risk

Other scenarios envisaged for market behavior are properly simulated by means of Value-at-Risk calculation models and, especially, via stress tests and analysis of scenario, which allows the identification of the main risk components to be controlled. The development of computer systems that support the decision-making process enables the efficient performance of the investment process as a whole – including the selection, analysis, monitoring, optimization and simulation. The Value-at-Risk is calculated using historical simulation methodologies and, where necessary, the Monte Carlo simulation. The stress tests are conducted using three different models: historical stress test, worst case scenario and hypothetical stress test.

Value at risk, or VaR

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined timeframe within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, preserving real distributions and correlation amongst assets. The accuracy of the risk system is tested by means of processes indicating the historical degree of result accuracy (retrospective test), as well as the accuracy of current prognostics. VaR may be measured in accordance with different timeframes, historical windows of retrospective view and confidence levels.

One day's timeframe, confidence level of 95% and retrospective view window of one year were used for the VaR numbers below to be reported. Confidence level of 95% means that there is 1 within 20 chances that the day trade net income remains below the day trade net income foreseen for an amount at least as high as the reported VaR. Therefore, insufficiencies arising from net income expected from trade in one sole day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in one sole day may exceed the reported VaR in material amounts. Insufficiencies may also occur more frequently or accrue during a longer timeframe, such as the number of consecutive trading days. As it is backed up by historic data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historic distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one day timeframe does not fully capture the market risk of positions that may not be settled or set-off with hedges within the term of one day. As aforementioned, we use a Stress Test model as a VaR supplement in the Bank's risk management daily activities.

The following table contains the daily average of VaR for the years ended, as indicated:

In millions of R$	2011	2010	2009
Daily average VaR	28.4	21.5	10.3

c) Credit risk

All of the bank's counterparties and its subsidiaries are subject to careful credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly revised. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d) Liquidity risk

The bank and its subsidiaries manage the liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from first tier counterparties at extremely competitive rates. The bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e) Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an Operating Risk Management applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The bank and its subsidiaries have a strong tradition in operational risk management, which takes into account the assessment, monitoring, simulation and validation of risks, based in consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, to rapidly adjust to changes and to estimate future trends, among which the New Basel Capital Accord propositions are to be highlighted.

(in thousands of reais)

6. Cash and cash equivalents

The balance of this item refers basically to deposits abroad in first tier banks.

7. Short-term interbank investments

	2011				2010
	Total	**Up to 90 days**	**From 91 to 365 days**	**From 1 to 3 years**	**Total**
Open market investments	18,624,436	17,201,384	1,426,052	-	25,122,576
Own portfolio	4,121,337	3,915,872	205,465	-	750,594
Federal government bonds	1,572,128	1,366,663	205,465	-	750,594
Foreign bonds	2,259,143	2,259,143	-	-	-
Corporate bonds	290,066	290,066	-	-	-
Third party portfolio	13,153,965	12,544,078	609,887	-	7,583,389
Federal government bonds	11,026,064	10,416,177	609,887	-	7,583,389
Foreign bonds	2,127,901	2,127,901	-	-	-
Short position	1,349,134	741,434	607,700	-	16,788,593
Federal government bonds	1,056,754	449,054	607,700	-	16,788,593
Foreign bonds	292,380	292,380	-	-	-
Interbank deposits	958,600	816,955	126,858	14,787	86,740
Certificate of interbank deposit (*)	916,457	774,812	126,858	14,787	85,657
Investments of foreign currency - overnight	42,143	42,143	-	-	1,083
	19,583,036	18,018,339	1,549,910	14,787	25,209,316

(*) The balance of this item refers basically to interbank deposits in first-tier banks.

(in thousands of reais)

8. Securities

a) Summary by type of portfolio

The breakdown by type of instrument and maturity of the securities portfolio is as follows:

	2011						2010
	Cost	**Market**	**Up to 90 days**	**From 90 to 365 days**	**From 1 to 3 years**	**Over 3 years**	**Market**
Own portfolio							
Federal government bonds	2,918,456	2,922,738	25,650	-	416,800	2,480,288	2,962,852
Debêntures/Eurobonds	4,184,172	4,293,557	124,079	633,409	1,360,002	2,176,067	2,174,488
Bank credit certificate	99,966	100,425	322	42,684	56,490	929	66,337
Investment fund quotas					-		1,136,872
Multimarket	943,039	943,038	212,092	-	730,946	-	
Shares	118,511	118,511	118,511	-		-	
Credit rights investment fund	449,263	449,263	-	-	449,263	-	
Equity investment fund	838,674	838,674	-	-	838,674	-	
Other	1,850	1,850	1,850	-		-	
Shares	3,651,282	3,584,455	3,584,455	-	-	-	2,161,066
Promissory Notes	956,202	956,853	-	956,853		-	-
Certificate of real estate receivables	748,163	748,165	-	-	298,030	450,135	444,764
Foreign government bonds	-	-	-	-	-	-	322,395
United States	420,386	421,831	-	62,622	-	359,209	-
Others	58,519	55,648	-	1,530	42,099	12,019	-
Foreign corporate bonds	919,653	809,162	11,977	1,140	163,086	632,959	-
US Agencies	99,223	100,630	-	-	-	100,630	-
Sundry	199,662	188,809	-	-	153,168	35,648	90,079
	16,607,021	16,533,609	4,078,936	1,698,233	4,508,558	6,247,882	9,358,853
Free traded portfolio							
Federal government bonds	12,888	12,560	-	-	-	12,560	-
	12,888	12,560	-	-	-	12,560	-
Subject to repurchase agreements							
Federal government bonds	5,989,922	5,876,773	74,273	590,900	1,489,689	3,721,910	6,520,970
Foreign government bonds					-		15,877,177
United States	3,716,432	3,795,158	121,879	265,520	466,568	2,941,191	
United Kingdom	1,178,366	1,181,677	-	-	220,657	961,020	
Germany	279,709	275,426	-	-	-	275,426	
Others	225,015	218,324	-	-	-	218,324	
US Agencies	8,111,739	8,078,497	-	-	6,798,508	1,279,989	
Debêntures / Eurobonds	897,964	888,799	6,928	-	240,611	641,260	385,063
Corporate foreign bonds	801,133	740,650	20,701	-	41,443	678,506	113,743
	21,200,280	21,055,304	223,781	856,421	9,257,475	10,717,626	22,896,953
Subject to guarantees							
Federal government bonds	2,149,655	2,148,776	-	158,090	410,296	1,580,390	792,929
Shares	84,567	86,294	86,294	-	-	-	957,959
	2,234,222	2,235,070	86,294	158,090	410,295	1,580,390	1,750,888
Securities held for trading	36,265,924	36,048,056	4,389,012	2,712,748	14,176,323	14,769,973	34,006,694
Securities held to maturity	3,788,487	3,788,487	-	-	-	3,788,487	-
	40,054,411	39,836,543	4,389,012	2,712,748	14,176,323	18,558,460	34,006,694

(in thousands of reais)

b) Securities held for trading

	2011						2010
	Cost	**Market**	**Up to 90 days**	**From 90 to 365 days**	**From 1 to 3 years**	**Over 3 years**	**Market**
Own portfolio							
Federal government bonds	542,540	546,825	25,650	-	416,800	104,375	2,962,852
Debêntures/Eurobonds	4,184,172	4,293,557	124,079	633,409	1,360,002	2,176,067	2,174,488
Bank credit certificate	99,966	100,425	322	42,684	56,490	929	66,337
Investment fund quotas							1,136,872
Multimarket	943,039	943,038	212,092	-	730,946	-	
Shares	118,511	118,511	118,511	-	-	-	
Credit rights investment fund	449,263	449,263	-	-	449,263	-	
Equity investment fund	838,674	838,674	-	-	838,674	-	
Other	1,850	1,850	1,850	-	-	-	
Shares	3,651,282	3,584,455	3,584,455	-	-		2,161,066
Promissory Notes	956,202	956,853	-	956,853	-	-	-
Certificate of real estate receivables	748,164	748,165	-	-	298,030	450,135	444,764
Foreign government bonds	-	-	-	-	-	-	322,395
United States	420,386	421,831	-	62,622	-	359,209	-
Others	58,519	55,648		1,530	42,099	12,019	-
Foreign corporate bonds	919,653	809,162	11,977	1,140	163,086	632,959	-
US Agencies	99,223	100,630	-	-	-	100,630	-
Sundry	199,662	188,809	-	-	153,163	35,646	90,079
	14,231,106	14,157,696	4,078,936	1,698,238	4,508,551	3,871,971	9,358,853
Free traded portfolio							
Federal government bonds	12,888	12,560	-	-	-	12,560	-
	12,888	12,560	-	-	-	12,560	-
Subject to repurchase agreements							
Federal government bonds	5,989,922	5,876,773	74,274	590,900	1,489,689	3,721,910	6,520,970
Foreign government bonds	-	-	-	-	-	-	15,877,177
United States	3,716,432	3,795,158	121,879	265,520	466,568	2,941,191	12,590,810
United Kingdom	1,178,366	1,181,677	-	-	220,657	961,020	1,635,532
Spain	-	-	-	-	-	-	195,151
Italy	-	-	-	-	-	-	285,112
Germany	279,709	275,426	-	-	-	275,426	791,490
Others	225,015	218,324	-	-	-	218,324	379,082
US Agencies	8,111,739	8,078,497	-	-	6,798,508	1,279,989	-
Debêntures / Eurobonds	897,964	888,799	6,928	-	240,611	641,260	385,063
Corporate foreign bonds	801,133	740,650	20,701	-	41,443	678,506	113,743
	21,200,280	21,055,304	223,782	856,420	9,257,476	10,717,626	22,896,953
Subject to guarantees							
Federal government bonds	737,083	736,202	-	158,090	410,296	167,816	792,929
Shares	84,567	86,294	86,294	-	-	-	957,959
	821,650	822,498	86,294	158,090	410,296	167,816	1,750,888

(in thousands of reais)

c) Securities held to maturity

	2011						2010
	Cost	Market	Up to 90 days	From 90 to 365 days	From 1 to 3 years	Over 3 years	Market
Own portfolio							
Federal government bonds	2,375,915	2,375,915	-	-	-	2,375,915	-
	2,375,915	2,375,915	-	-	-	2,375,915	-
Subject to guarantees							
Federal government bonds	1,412,572	1,412,572	-	-	-	1,412,572	-
	1,412,572	1,412,572	-	-	-	1,412,572	-

The securities included in this category, if evaluated at market value, would present in December 31, 2011 a positive adjustment in the amount of R$ 38,503.

The Bank has finantial capacity to maintain such investments until maturity.

d) Reclassification of securities

The management classifies securities in accordance with its trading intention.

As established in article 5 of BACEN Circular No. 3,068/01, the revaluation in relation to the classification of securities may only be made at six-month trial balances. In addition, transference of category from maintained until maturity to others may only occur for individual, non-usual, non-recurrent and not foreseen reasons, which have occurred after the date of classification.

No reclassifications or intention alterations were made in the fiscal years by the management.

(in thousands of reais)

9. Derivative financial instruments

The group actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedge for their own needs and for that and their clients, with a view to reducing their exposure to market, currency and interest rate risks. Certain derivative financial instruments may be associated with operations involving marketable securities or rights and obligations. The risk underlying these operations is managed by means of strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques.

The transactions carried out in Brazil are traded, registered or held in custody by BM&FBOVESPA, and CETIP S.A. – OTC Clearing House ; transactions carried out abroad are traded and registered with first tier brokers.

On December 31, 2011 and 2010, the Bank does not have derivative financial instruments classified as hedge.

a) Registered in set-off and assets accounts

The notional amounts of transactions with financial instruments are recorded in set-off and adjustment/premium accounts in assets accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, take into account the provisions of BACEN Circular No. 3,389/08, which determines the exclusion of agreements in currency, gold and other assets connected to exchange exposure, with term in the first business day following the date the exchange exposure is verified.

	2011				2010
	In up to 6 months	From 6 to 12 Months	Exceeding 12 months	Total	Total
Future market					
Long position	131,916,617	1,800,703	17,692,793	151,410,113	64,555,762
Currency	3,067,981	3,413	1,104,146	4,175,540	2,229,036
Interest rate	127,956,561	1,610,763	16,551,744	146,119,068	31,895,679
Commodities	185,528	59,672	17,761	262,961	30,306,252
Index	706,547	116,578	16,897	840,022	124,795
Shares	-	10,277	2,245	12,522	-
Short position	5,709,558	2,789,987	7,056,832	15,556,377	50,120,609
Currency	477,352	1,021,930	3,282,415	4,781,697	5,746,150
Interest rate	2,913,252	1,322,485	3,377,482	7,613,219	6,787,434
Commodities	1,903,703	302,507	27,503	2,233,713	-
Index	159,233	87,691	-	246,924	37,522,374
Shares	256,018	55,374	369,432	680,824	64,651

(in thousands of reais)

	2011				2010
	In up to 6 months	From 6 to 12 Months	Exceeding 12 months	Total	Total
Swap					
Long position	5,957,265	6,374,286	31,048,922	43,380,473	28,041,029
Currency	275,828	914,993	390,152	1,580,973	1,952,511
Interest rate	1,946,317	4,051,182	27,080,365	33,077,864	4,615,151
Índex	2,994,545	505,960	3,174,122	6,674,627	21,473,367
Shares	263,594	825,680	13,140	1,102,414	-
Commodities	18,659	158	-	18,817	-
Other	458,322	76,313	391,143	925,778	-
Short position	5,957,265	6,374,286	31,048,922	43,380,473	27,858,093
Currency	2,564,027	884,282	986,399	4,434,708	3,870,148
Interest rate	355,309	855,833	877,396	2,088,538	1,945,339
Índex	2,626,567	3,867,260	28,727,846	35,221,673	22,042,606
Shares	176,953	1,027	3,440	181,420	-
Commodities	3,713	124	-	3,837	-
Other	230,696	765,760	453,841	1,450,297	-
Credit derivatives					
Long position	23,908	379	1,280,841	1,305,128	-
Sovereign	23,908	379	1,161,607	1,185,894	-
Corporate	-	-	119,234	119,234	-
Short position	937,550	191,545	2,009,594	3,138,689	-
Sovereign	375,020	187,795	1,878,337	2,441,152	-
Corporate	562,530	3,750	131,257	697,537	-
Non-deliverable forward - NDF					
Long position	9,530,061	4,263,618	2,933,483	16,727,162	13,091,957
Currency	3,804,118	347,523	138,997	4,290,638	12,453,333
Interest rate	5,725,943	3,916,095	2,794,486	12,436,524	638,624
Short position	9,530,061	4,263,618	2,933,483	16,727,162	13,158,525
Currency	8,899,393	3,945,635	2,794,486	15,639,514	12,009,298
Interest rate	349,789	317,983	130,064	797,836	1,149,227
Index	1,601	-	-	1,601	-
Shares	218,522	-	8,933	227,455	-
Others	60,756	-	-	60,756	-
Deliverable forward - DF					
Long position	1,156,182	898,798	-	2,054,980	3,760,816
Currency	1,156,182	898,798	-	2,054,980	3,760,816
Short position	1,156,182	898,798	-	2,054,980	3,773,716
Currency	1,156,182	898,798	-	2,054,980	3,773,716
Forward securities					
Long position	1,479,074	-	-	1,479,074	-
CDI	739,537	-	-	739,537	-
Securities	739,537	-	-	739,537	-
Short position	1,479,074	-	-	1,479,074	-
CDI	739,537	-	-	739,537	-
Securities	739,537	-	-	739,537	-
Options market					
Call option	175,328,623	47,090,146	177,464,831	399,883,600	28,428,888
Share	42,293,985	263,224	132,750	42,689,959	1,230,335
Commodities	243,857	-	-	243,857	-
Index	6,240,263	1,964,490	1,259,057	9,463,810	-
Currency	58,036,101	44,839,500	90,624,000	193,499,601	27,112,804
Interest rate	68,514,417	22,283	85,426,375	153,963,075	85,749
Other	-	649	22,649	23,298	-

2011 2010

(in thousands of reais)

	In up to 6 months	From 6 to 12 Months	Exceeding 12 months	Total	Total
Put option	126,547,381	64,271,459	202,999,775	393,818,615	67,598,003
Share	2,898,373	-	2,500,000	5,398,373	89,414
Commodities	663,610	-	-	663,610	-
Index	1,447,000	913,072	772,627	3,132,699	-
Currency	53,927,447	48,995,593	86,340,000	189,263,040	67,508,589
Interest rate	63,485,731	3,375,560	113,387,148	180,248,439	-
Other	4,125,220	10,987,234	-	15,112,454	-
Call option	213,145,806	121,386,135	94,205,669	428,737,610	17,106,306
Share	2,869,268	151,000	-	3,020,268	1,049,762
Commodities	243,763	-	-	243,763	-
Index	56,144,286	5,022,615	703,163	61,870,064	-
Currency	66,869,466	95,274,180	93,472,795	255,616,441	15,955,349
Interest rate	87,019,023	20,938,340	29,711	107,987,074	101,195
Put option	149,984,678	51,125,778	90,033,790	291,144,246	103,090,896
Share	2,158,179	46,380	125,700	2,330,259	992,403
Commodities	648,433	-	-	648,433	-
Index	6,900,198	2,087,009	703,163	9,690,370	-
Currency	57,224,488	48,813,718	89,192,930	195,231,136	102,098,493
Interest rate	83,053,380	178,671	11,997	83,244,048	-

b) By cost and market value

	2011					2010
	Cost	Market	In up to 6 months	From 6 to 12 months	Exceeding 12 months	Total
Futures						
Long position	22,516	22,517	15,166	2,052	5,299	-
Short position	(15,900)	(15,900)	(8,811)	(757)	(6,332)	-
Swap						
Long position	199,075	267,019	21,330	70,122	175,567	313,759
Short position	(409,901)	(466,791)	(67,786)	(212,496)	(186,509)	(229,590)
Credit derivatives						
Long position	101,109	151,046	1,624	117	149,305	-
Short position	(92,196)	(128,264)	-	(168)	(128,096)	-
Non-deliverable forward - NDF						
Long position	270,464	266,937	54,116	130,591	82,230	132,011
Short position	(75,909)	(74,379)	(37,727)	(11,899)	(24,753)	(205,907)
Deliverable forward - DF						
Long position	491,985	491,985	491,046	939	-	-
Short position	(491,120)	(491,120)	(491,120)	-	-	-
Forward transactions						
Long position	1,479,073	1,479,073	1,479,073	-	-	1,355,631
Short position	(1,479,073)	(1,479,073)	(1,479,073)	-	-	(1,360,086)
Options market						
Long position	286,150	378,783	212,436	103,641	62,706	253,705
Short position	(380,939)	(298,262)	(152,633)	(61,054)	(84,575)	(370,103)

(in thousands of reais)

c) By counterparty

	2011				2010
	BM&FBovespa	Instituições Financeiras	Empresas	Total	Total
Mercado futuro					
Posição comprada	148,957,011	2,453,102	-	151,410,113	64,555,762
Posição vendida	8,669,398	6,886,980	-	15,556,378	50,120,609
Swap					
Posição ativa	4,231,389	37,215,845	1,933,239	43,380,473	28,041,029
Posição passiva	4,231,389	37,215,845	1,933,239	43,380,473	27,858,093
Derivativos de crédito					
Posição ativa	-	1,305,128	-	1,305,128	-
Posição passiva	-	3,138,689	-	3,138,689	-
Termo de moedas - NDF					
Posição ativa	-	15,622,448	1,104,713	16,727,161	13,091,957
Posição passiva	-	15,662,448	1,104,713	16,727,161	13,158,525
Termo de moedas - DF	-	1,455,316	-	1,455,316	
Posição ativa	-	599,664	-	599,664	3,760,816
Posição passiva					3,773,716
Operações a Termo					
Posição ativa	-	1,479,074	-	1,479,074	-
Posição passiva	-	1,479,074	-	1,479,074	-
Mercado de opções					
Posição comprada	47,893,235	31,476,987	-	79,370,221	96,026,891
Posição vendida	55,300,910	16,687,275	-	71,988,186	120,197,202

d) Credit derivatives

	2011	2010
Credit swap		
Transferred risk		
Sovereign	1,185,894	-
Corporate	119,234	-
Risk received		
Sovereign	(2,441,152)	-
Corporate	(697,537)	-
Total	(1,833,561)	-

During the period, there was no credit event related to triggering facts provided for in agreements.

In accordance with CMN Resolution no. 3,490, the effect on the calculation of the Required Equity (PRE) in 2011 is R$ 1,729,127.

e) Margins granted as security

The security margin granted in operations traded in BM&FBovespa with derivative financial instruments is comprised by federal government securities in the amount of R$ 2,187,464 (2010 – R$ 624,043) and shares in the amount of R$ 86,294 (2010 - R$ 613,751).

(in thousands of reais)

10. Credit operations

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution No. 2,682/99.

This classification takes into consideration , amongst others, a periodic analysis of operation, of defaults, of client history and of security, as applicable.

Allowance for loan losses is calculated based on the client's risk level classification, defined in the aforementioned Resolution.

Loans and other operations with loan characteristics may be demonstrated as below:

a) Credit operations

i. By type of credit

Type of credit	2011 Balance	2011 Allowance	2010 Balance	2010 Allowance
Loans	2,987,490	(77,428)	2,576,442	(79,514)
Financing	1,399,992	(4,873)	1,002,652	(1,084)
FINAME/BNDES	44,647	(47)	100,535	(70)
Securities financing	315,299	-	102,713	-
Total	4,747,428	(82,348)	3,782,342	(80,668)

ii. By risk level and maturity

	2011						2010	
		Payable						
Risk level	Overdue	In up to 6 months	From 6 to 12 months	Exceeding 12 months	Total	Allowance	Total	Allowance
AA	-	1,296,053	387,077	765,009	2,448,139	-	2,611,238	-
A	-	672,549	216,515	605,409	1,494,473	(10,136)	783,781	(10,087)
B	-	153,884	90,285	291,992	536,161	(5,362)	202,950	(2,029)
C	1,974	18,514	17,297	18,310	56,095	(1,683)	30,197	(906)
D	10,243	98,806	15,426	13,781	138,256	(13,826)	17,298	(1,730)
E	-	-	-	-	-	-	90,417	(27,125)
F	22,699	-	1,513	-	24,212	(12,106)	-	-
G	-	6,943	4,896	24,351	36,190	(25,333)	25,568	(17,898)
H	-	-	-	13,902	13,902	(13,902)	20,893	(20,893)
Total	34,916	2,246,749	733,009	1,732,754	4,747,428	(82,348)	3,782,342	(80,668)

(in thousands of reais)

iii. By activity sector

Sector	2011	2010
Commerce	31,908	45,119
Industry	872,011	899,640
Services	3,174,487	2,331,204
Rural	313,494	152,674
Individuals	355,528	353,705
Total	4,747,428	3,782,342

b) Other receivables – with credit assignment

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions, may be demonstrated as below:

i. By risk level and maturity

	2011						2010	
		Payable						
Risk level	Overdue	In up to 6 months	From 6 to 12 months	Exceeding 12 months	Total	Allowance	Total	Allowance
AA	-	65,093	106,003	464,451	635,547	-	575,837	-
A	-	-	-	-	-	-	1,197	(6)
B	2,955	10,707	3,169	9,230	26,061	(261)	46,680	(467)
C	175	-	-	-	175	(5)	-	-
D	-	-	-	-	-	-	159	(16)
Total	3,130	75,800	109,172	473,681	661,783	(266)	623,873	(489)

ii. By activity sector

Sector	2011	2010
Commerce	-	34,029
Industry	42,641	16,101
Services	619,142	573,417
Individuals	-	326
Total	661,783	623,873

(in thousands of reais)

c) Advances in foreign exchange contracts

i. By risk level and maturity

	2011						2010	
		Payable						
Risk level	Overdue	In up to 6 months	From 6 to 12 months	Exceeding 12 months	Total	Allowance	Total	Allowance
AA	-	97,577	-	-	97,578	-	-	-
A	15,720	42,465	218,696	-	276,881	(1,384)	50,038	(250)
B	-	190,037	-	-	190,037	(1,900)	17,283	(173)
Total	15,720	330,079	218,696	-	564,496	(3,284)	67,321	(423)

ii. By activity sector

Sector	2011	2010
Commerce	5,885	8,246
Industry	32,954	23,712
Services	525,657	35,363
Total	564,496	67,321

d) Allowance

Operations with allowance for losses on loans and other receivables with loan characteristics during the fiscal years was the following:

	2011	2010
Inicial balances	(81,580)	(89,487)
Allowance reversal/(constitution)	(18,190)	(23,413)
FX on balance of oversea agency	(417)	-
Credits marked down for losses	14,289	31,320
Final balances	(85,898)	(81,580)
Composition of final balances		
Allowance for loan losses	(82,348)	(80,668)
Allowance for losses on other receivables	(266)	(489)
Allowance for advances on foreign exchange contracts	(3,284)	(423)
	(85,898)	(81,580)

(in thousands of reais)

Changes in allowance for losses on other non-credit-extension receivables during the periods were as follows:

	Non-credit-extension receivables	
	2011	2010
Inicial balances	(30,253)	(49,955)
Incorporation of amounts (i)	(617,496)	-
Allowance reversal/(constitution)	(11,832)	16,383
Credits marked down for losses	-	3,319
Final balances	(659,581)	(30,253)

(i) Refers to amounts from companies consolidated in 2011.

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as demonstrated in item b of this note and allowances for other receivables without loan characteristics basically refer to credits arising from securities trading and brokerage, presented in note 12(b).

e) Renegotiation/recovery of credits written-off as losses

In the credit portfolio the amount of R$ 88,718 refer to renegotiations occurred in the fiscal year ended December 31, 2011 (R$ 31,031 in 2010). Credits marked down were recovered for losses in the amount of R$ 19,566 (R$ 8,594 in 2010).

g) Credit assignment

In 2011 credit assignment with coobrigation were contracted in the amount of R$ 295,783, with no effect in the fiscal years' results. There were no credit assignments in 2010.

(in thousands of reais)

11. Other receivables/obligations

a) Foreign exchange portfolio

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased/sold	753,727	101,311	680,732	598,180
Rights on foreign exchange sales	101,485	-	598,209	-
(-) Advances on foreign exchange contracts (i)	19,037	(545,459)	-	(67,321)
(-) Advances in foreign currency received	(94,335)	-	-	-
(-) Advances in national currency received	(3,739)	-	(5,934)	-
Liability for foreign exchange purchase	-	668,529	-	685,420
	776,175	244,381	1,273,007	1,216,279
Current	145,565	224,381	1,216,971	1,162,107
Long-term	630,610	-	56,036	54,172

(i) See note 10(c).

Guarantees given in connection with foreign exchange transactions carried out through BM&FBOVESPA S.A. – Stock Exchange, Commodities and Futures (BM&FBOVESPA) are represented by federal government securities in the amount of R$ 18,422 (2010 - R$ 3,123).

b) Securities trading and brokerage

	2011		2010	
	Ativo	Passivo	Ativo	Passivo
Clearing houses	30,809	99,295	8,547	163,957
Comissions payable	-	154	-	-
Debtors/creditors – pending settlement account	4,372,440	3,727,062	1,757,948	714,362
Creditors for stock loans	-	1,613,269	-	1,173,165
Debitors for stock loans	-	-	223,008	-
Securities trading and brokerage	513	2,490,254	113	7,491,163
	4,403,762	7,930,034	1,989,616	9,542,647
Current assets	4,402,981	7,921,906	1,989,503	9,528,952
Long term	781	8,128	113	13,695

The item “Debtors/creditors – pending settlement account” is basically represented by amounts pending settlement within terms established in regulation, relating to transactions involving the purchase and sale of securities and financial asset agreements on BMF&BOVESPA, and abroad through first tier stockbrokers, on the Bank’s behalf or on behalf of third parties.

The item “Securities trading and brokerage” basically represents, in assets, swap intermediation transactions, and in liabilities, refers basically to sale of shares, to be settled within the terms established in regulation.

(in thousands of reais)

12. Other receivables

a) Income receivable

	2011	2010
Dividends and bonuses	12,083	4,469
Receivable from services rendered receivable	208,608	92,144
Management and performance fees for investment funds and portfolios	145,974	111,147
Distribution fees	12,753	-
Commissions on guarantees	2,450	7,646
Other	9,614	8,219
	391,482	223,625
Current assets	356,677	223,625
Long term	34,805	-

b) Sundry

	2011	2010
Deferred tax assets	1,311,176	872,252
Judicial deposits	530,668	440,342
Recoverable taxes	220,499	172,366
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (i)	661,783	623,873
Without loan characteristics	3,090,260	139,525
Other debtors – local	1,312,799	50,646
Sundry	8,704	86,094
	7,137,206	2,386,415
Current assets	5,240,085	854,095
Long term	1,897,121	1,532,320

(i) See note 10 (b).
(ii) Refers to the acquisition of payroll loans and vehicle financing by the Investment Funds in Credit Rights - FIDC. These were recorded under this classification, since the acquisition of the portfolio did not take into account the criteria for each of the individual contracts and the subsequent control runs for the portfolio as a whole and not transaction by transaction .

(in thousands of reais)

13. Investment in associates and jointly controlled entities

The Bank had no investment in subsidiary companies as of 2010.

	Jointly controlled companies	
	Shareholders' equity	**Net income**
In Brazil		
Banco Panamericano S.A.	1,398,350	11,181
Warehouse 1 Empreendimentos Imobs S.A.	40,089	(3,237)
Max Casa XIX Empreendimentos Imobs S.A.	14,358	(2,179)
ACS Omicron Empreendimentos Imobs S.A.	18,414	3,898
One Properties S.A.	658,287	(200,444)
Vivere Soluções e Serviços S.A.	29,997	5,070

	Jointly controlled companies		
	Equity interest	**Investment**	**Equity pickup**
In Brazil			
Banco Panamericano S.A.(iii)	37.64%	522,138	(27,236)
Ágio - Banco Panamericano.		(99,209)	-
Warehouse 1 Empreendimentos Imobs S.A.	35.00%	14,031	(1,133)
Ágio - Warehouse 1 Empreendimentos Imobs S.A.		14,136	-
Max Casa XIX Empreendimentos Imobs S.A.	50.00%	7,179	(1,572)
ACS Omicron Empreendimentos Imobs S.A.	44.74%	8,239	2,327
Ágio - ACS Omicron Empreendimentos Imobs S.A.		6	-
One Properties S.A.	49.99%	329,078	22,583
Ágio One Properties S.A.		320,956	-
Vivere Soluções e Serviços S.A.	30.00%	8,738	1,500
		1,125,292	(3,531)

(i) Acquired in November 2011
(ii) Acquired in October 2011

a) Banco Panamericano S.A

On May 27, 2011, as mentioned in Note 1, the Bank purchased 37.64% of Banco Panamericano's interest for the amount of R$ 450,000. At the date of completion of the transaction, a discount in the amount of R$ 99,209 was verified.

Panamericano acts mainly in the direct consumer credit market, operating personal credit lines and vehicles financings, building materials, furniture, tourism, appliances and others. Through its direct and indirect subsidiaries, also acts in leasing of vehicles and other goods, insurance in the collective personal accident segment, incomes for random events (unemployment insurance), life in groups and personal damages - DPVAT and vehicles and real estate consortium. Benefits from services rendered amongst companies of the Panamericano Group and costs of operational and administrative structures are jointly or individually absorbed by these companies.

b) BW Properties S.A. ("BW")

On November 22, 2011, the Bank acquired a 67.49% share in BW by providing capital of R$159,803. Of this total R$ 109,712 was paid up in cash and the remaining R$ 50,142 paid in assets represented by *Certificados de Potencial Adicional de Construção* (CEPACs), potential additional construction certificates. As a result of this transaction a premium was calculated based on the expected future profitability of R$ 21,585.

The Bank's management tested recoverability on goodwill and concluded that there is no need to acknowledge any impairment allowance for the year.

The corporate object of BW is development and investment in real estate projects, administration and letting own property and investing in other companies.

c) Saíra Diamante Empreendimentos Imobiliários S.A.("Saíra")

On October 31, 2011, the Bank acquired the remaining 30% shares in Saíra, and became the holder of 100% of total equity.

Later, on November 22, 2011, the capital of Saíra was increased in R$ 1,476,822, the Bank having contributed with R$ 1,376,522, and third parties with R$ 96,079. Consequently, the Bank now holds 92% shareholding in Saíra.

Of the full amount paid by the Bank, R$ 235,523 was paid in cash and the remaining balance of R$ 1,140,999 by transferring assets held by the Bank in the investment funds in Participações Ventura II and Development II in the amounts of R$ 341,938 and R$ 519,090, respectively.

Also, the Bank transferred the net assets of R$ 279,970 relating to the property in the Faria Lima region, Sao Paulo state.

As a result of this capital increase, the Bank now holds 92% investment in Saíra.

On December 31, 2011, the total goodwill for this investment is R$ 57,109. This goodwill is fully based on the expected future profitability. The Bank's management tested impairment on this goodwill and concluded that there is no need to acknowledge any impairment provision for the year.

The corporate object of Saíra is development and investment in real estate projects, administration, letting its own property and investing in other companies.

D) Warehouse 1 Empreendimentos Imobiliários S.A. ("Warehouse")

Banco BTG has a shareholding of 35% in the company, which is developing real estate assets in Rio de Janeiro. The total amount invested is R$ 29,300, and a goodwill was calculated based on future profitability of R$ 14,136.

The Bank's management tested impairment on this goodwill and concluded that there is no need to acknowledge any impairment provision for the year.

14. Fund raising and loans and onlending

Deposits	14,211,060	4,949,483	6,562,971	1,557,093	97,511	1,044,002	10,573,544
Open market funding	39,060,989	38,491,170	569,819	-	-	-	41,188,919
	3,774,632	667,147	1,036,315	426,904	1,059,852	584,414	1,305,498
Loans and onlending	919,716	159,913	756,678	2,143	982	-	155,261
		-	-	-	415,830	3,742,465	-
	62,124,692	44,267,713	8,925,783	1,986,140	1,574,175	5,370,881	53,223,222

Demand deposits	1,574,208	1,574,208	-	-	-	-	2,312,891
Interbank deposits	576,405	194,456	378,305	3,644	-	-	338,891
Time deposits	12,060,447	3,180,819	6,184,666	1,553,449	97,511	1,044,002	7,908,932
Other deposits	-	-	-	-	-	-	12,830
	14,211,060	4,949,483	6,562,971	1,557,093	97,511	1,044,002	10,573,544

c) Open market funding

Open market funding is underlined on the following securities:

Own portfolio	22,838,450	22,393,445	445,005	-	-	-	24,182,649
Federal government bonds	5,885,970	5,885,970	-	-	-	-	6,447,058
Foreign bonds	16,160,849	16,160,849	-	-	-	-	15,981,003
Corporate securities	791,631	346,626	445,005	-	-	-	1,754,588
Third-party portfolio	13,692,426	13,692,426	-	-	-	-	7,392,980
Federal government bonds	11,572,280	11,572,280	-	-	-	-	7,382,102
Foreign government bonds	4,836	4,836	-	-	-	-	-
Corporate securities	3,017	3,017	-	-	-	-	10,878
Foreign bonds	2,112,293	2,112,293	-	-	-	-	-
Free-trading portfolio	2,530,113	2,405,299	124,814	-	-	-	9,613,290
Federal government bonds	2,239,367	2,114,553	124,814	-	-	-	9,613,290
Foreign bonds	290,746	290,746	-	-	-	-	-
	39,060,989	38,491,170	569,819	-	-	-	41,188,919

d) Funds from securities issued and accepted

Securities – Brazil	2,624,992	664,298	854,283	412,654	109,343	584,414	1,299,479
Real estate credit bills/agribusiness	2,624,992	664,298	854,283	412,654	109,343	584,414	1,299,479
Securities – abroad	1,149,640	2,849	182,032	14,250	950,509	-	6,019
Medium term notes	1,143,042	-	178,282	14,250	950,509	-	6,019
Credit linked notes	6,599	2,849	3,750	-	-	-	-
	3,774,632	667,147	1,036,315	426,904	1,059,852	584,414	1,305,498

(i) These notes were issued on July 8, 2011 in the amount of USD 500.000 with repayment every six months, January 8 and july 8, and final maturity on

e) Loans and onlending

		142,220	732,874	-	-	-	55,161
		142,220	399,273	-		-	55,161
		-	333,601	-	-	-	-
Onlending in Brazil – official instances	44,622	17,693	23,804	2,143	982	-	100,100
FINAME	44,622	17,693	23,804	2,143	982	-	100,100
		159,913	756,678	2,143	982	-	155,261

(in thousands of reais)

f) Subordinated debt

On December 31, 2011, the outstanding balance of this item in the amount of R$ 4,158,295, is represented by financial bills issued on April 15, 2011, with repayment every six months since October 2016 and maturity on April 15, 2021, indexed to inflation rates plus fixed income rates.

15. Other obligations

a) Social and statutory

	2011	2010
Dividends payable	176	-
Employees' profit sharing	449,842	230,601
Bonuses payable	103,188	41,443
	553,206	272,044
Current assets	552,761	230,601
Long-term	445	41,443

a) Tax and social security

	2011	2010
Tax and contributions to be coollected	116,081	42,596
Tax and contributions payable	83,718	79,399
Deferred social contribution and income tax	48,720	9,744
Tax with suspended collection	511,421	418,435
Tax and contributions payable		
	759,940	550,174
Current assets	238,783	107,363
Long-term	521,157	442,811

c) Sundry

	2011	2010
Payable for acquisition of assets and rights	569,694	83,074
Allowance for accounts payable	201,371	168,242
Provision for contingent liabilities	27,719	27,579
Payable to related parties	163	7,733
Others	80,766	3,496
	879,713	290,124
Current assets	279,206	179,207
Long-term	600,507	110,917

16. Contingent assets and liabilities and legal, tax and social security obligations

The Bank's Management evaluates existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Management's judgment is based on the opinion of its outside lawyers regarding the expected outcome for each proceeding.

a) Contingent assets

On December 31, 2011 and 2010 the Bank recorded no contingent assets.

b) Contingent liabilities classified as probable losses and legal obligations

Labor provisions

These related to suits filed by former employees, mostly claiming overtime and equal pay. The contingencies are accrued for based on analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

Civil Provisions

For civil suits with chances of unfavorable outcome (pain and suffering and property damages, among others requesting sentences to condemn), the contingency amounts are accrued for based on the opinion of internal and external legal counsel.

Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and local taxes, regarding legal obligations and contingent liabilities. The provisions are set up considering the opinion of the internal and external legal counsel and the court level to which each proceeding was submitted.

c) Break down and changes in provisions in the period

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions set up for such proceedings at December 31, 2011 are adequate to cover any losses arising therefrom.

The provisions set up and their changes in the period can be stated as follows:

(in thousands of reais)

	2011	2010
Balance at the beginning of the year	446,014	348,720
Set up	105,541	101,387
Credit written off	(12,415)	(4,093)
Balance of the end of the year	539,140	446,014

BTG Pactual Group has challenged in court the legal nature of some taxes and mandatory contributions. Relevant tax amounts have been fully provided for, although there are good chances of a favorable outcome, according to the opinion or assessment of the Bank's outside lawyers. The following legal disputes are to be mentioned:

COFINS – Challenge of the legal grounds for the levy of COFINS under rules established by Law No. 9,718/98.

PIS – Challenge of the levy of PIS established by Constitutional Amendments No. 10 of 1996 and No. 17 of 1997.

CSL – Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

No significant contingencies have been assessed as possible losses by outside lawyers that were not disclosed.

BANCO BTG PACTUAL S.A.

Notes to the consolidated financial statements
December 31, 2011 and 2010
(in thousands of reais)

17. Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is shown below:

Income tax and social contribution	2011	2010
Calculation base	1,282,881	1,192,458
Income before taxation and profit sharing	1,684,110	1,421,898
Statutory interest	(401,229)	(229,440)
Total charge of income tax and social contribution at the current rates	(513,152)	(476,983)
Permanent (addition) / exclusions in taxation calculation	201,001	8,529
Equity in the earnings of subsidiaries and associated companies in Brazil	(1,412)	-
Income / (Loss) of fx revaluation on foreign investments	58,904	-
Interest on capital	127,600	6,176
Dividends	15,360	4,351
Other permanent additions (exclusions)	549	(1,998)
Temporary (additions) / exclusions on the taxation calculation	248,873	339,488
Amortization of goodwill on the acquisition of investments	373,400	366,301
Marked-to-market evaluation of securities and derivative financial instruments	10,630	(13,677)
Allowance for loan losses	(8,353)	9,588
Contingencies	(24,574)	(22,327)
Losses of foreign branches	(81,352)	-
Other provisions	(20,878)	(397)
(Creation) / offset on tax loss carryforwards	107,986	(20,089)
Income tax and social contribution expenses	(171,266)	(108,877)
Temporary differences		
Creation / (reversal) for the year	(192,356)	(359,858)
Goodwill on the acquisition of investments	481,369	87,183
Loss on investments abroad	81,352	-
(Expenses) / revenues from deferred taxes	370,365	(272,675)
Total revenues / (expenses)	199,099	(381,552)

(in thousands of reais)

Income tax and social contributions are calculated and recorded in accordance with criteria established by the Central Bank Circular No. 3.059/02, taking into account the period of realization.

Changes in deferred tax assets, in line item “Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	2010	Creation	Realization	2011
Tax loss carryforwards	166,030	189,564	(3,822)	351,772
Allowance for loan losses	67,680	73,788	(65,435)	76,033
Adjustment to market value of securities and derivatives	14,202	442,896	(453,522)	3,576
Goodwill on the acquisition of investments	457,631	536,182	(373,401)	620,412
Tax contingencies and provision for taxes with suspended payment	104,474	24,575	-	129,049
Other provisions(i)	62,235	78,568	(10,469)	130,334
	872,252	1,345,573	(906,649)	1,311,176

(i) In september, 2011, the wholly owned subsidiary, BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex) conducted a reverse merger transaction from its parent BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Bank registered a tax benefit in the amount of R$ 54,813.

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

	Tax credits on temporary differences	Tax loss carryforwards	Total
2012	207,334	137,603	344,937
2013	289,708	133,548	423,256
2014	160,659	80,621	241,280
2015	147,598	-	147,598
2016 onwards	140,359	-	140,359
	945,658	351,772	1,297,430
Present value	730,954	295,005	1,025,959

18. Equity

a) Capital stock

At December 31, 2011 and 2010, the capital, fully subscribed and paid up, consists of 2,400,000,000 shares, 1,200,160,000 of which are common stock, 298,445,596 class A preferred stock and 901,394,404 class B preferred stock, all nominative with no par value..

At the extraordinary general meeting on December 9, 2010, the following decisions were determined and approved by BACEN on December 24, 2010:

(i) creation of preferred shares class A and class B without voting rights and, in case of the Bank's dissolution, these shares are entitled to priority in reimbursement, without premium, of the capital stock. The shares class B are convertible into common shares or preferred class A shares, in accordance with the conditions set forth in the Bylaws

(ii) reverse split-off of all 1,253,583,889 common shares issued by the Bank, due to which the capital stock was comprised of 1,952,331,606 common shares, all book-entry shares with no par value.

(iii) conversion of 901,394,404 common shares into 901,394,404 preferred shares class B.

(iv) capital increase of R$ 2,409,264 upon issuance of 447,668,394 new shares, of which 149,222,798 are common shares and 298,445,596 are preferred shares class A.

The extraordinary general meeting on April 30, 2010, which was approved by BACEN on December 8, 2010, approved the capital increase of R$ 7,079 by realizing a capital reserve without issuing new shares.

At the extraordinary general meeting on December 31, 2011, the increase in the company's capital stock was approved to the total sum of R$ 271,150. This decision still awaits approval from BACEN.

b) Legal reserve

This reserve is established at the rate of 5% net income for the year, before any other appropriation, and shall not exceed 20% of the capital.

c) Statutory reserve

In accordance with the bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

d) Unrealized income reserve

Established considering undistributed dividends from foreign subsidiaries.

e) Profit distribution

The shareholders are entitled to minimum dividends of 1% on the net income for the year adjusted in accordance with article 202 of Law no. 6,404/76.

The board meetings on March, 18, April 26 and September 20, 2010, decided on dividend distributions referring to profits for previous years of R$ 133,061, R$ 13,000 R$ 227,576 and R$ 473,000, respectively.

On September 20, 2010, interest on equity was determined in the amount of R$ 15,440, generating a tax benefit resulting from deductibility of expense, in the amount of R$ 6,176.

The extraordinary general meetings on March 17, July 1 and September 19, 2011, decided on dividend distribution of R$ 210,000, R$ 150,000 and R$ 197,000, respectively, for the previous years.

The extraordinary general meeting on December 5, 2011, decided on dividend distribution of R$ 135,000 referring to the Bank's retained earnings in the first semester of 2011.

On December 31, 2011, interest on equity was determined in the amount of R$ 319,000, generating a tax benefit resulting from deductibility of expense, in the amount of R$ 127,600.

(in thousands of reais)

f) Reconciliation of net income and sharehoders'equity

	Year 2011	Year 2010
Banco Pactual S.A.	**1,481,222**	**810,906**
Refers to the reconciliation of net income and shareholders'equity of Banco Panamericano S.A.(*) individual and consolidated financial statements.	(4,202)	-
Banco Pactual S.A. Consolidated	**1,477,020**	**810,906**

(*) The consolidated information presented by Banco Panamericano SA include its subsidiaries, direct and indirect, and special purpose entities, represented by investment in receivables (FIDC). In the process of consolidation of the FIDC, the unrealized gains from disposals of operations of the credit for their Panamericano FIDC are eliminated resulting in a difference between the net worth individual and consolidated shareholders' equity. The reflection of this difference is also found between the individual and consolidated net assets of the Bank BTG Pactual SA due to the recognition of investment in Panamericano through the equity method.

19. Income from services rendered

	Year 2011	Year 2010
Management fees and performance bonuses for investment funds and portfolio	511,447	343,413
Brokerage	107,660	107,673
Technical advisory services	343,462	265,706
Commission on the placement of securities	72,378	64,257
Guarantees	46,068	-
Other services	26,555	21,965
	1,107,568	803,014

20. Other operating income

	Year 2011	Year 2010
Credit recovery	5,695	-
Reversal of allowances – employees profit sharing	20,650	-
Reversal of allowances – sundry	604	98,964
Energy comercialization	214,046	65,123
Indemnification for judicial recovery	-	31,680
Reversal of allowances – contingencies	15,272	-
Asset monetary variation	70,675	25,684
Foreign exchange variation	25,129	-
Other operating income	20,075	17,237
	372,146	238,688

(in thousands of reais)

21. Other operating expenses

	Year 2011	Year 2010
Other operational provisions	1,350	-
Expense with tax update	4,407	2,949
Reimbursements of operating financial costs	8,131	3,787
Provision for goodwill	31,808	8,377
Atualization on accounts payable due to acquisition of assets or rights	33,418	-
Sundry	7,459	14,756
	86,573	29,869

22. Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by Banco BTG Pactual S.A.

The balance of transactions involving the related parties, which are carried out at arm's length, is reflected in the following accounts:

		2011		2010	
	Relationship	**Assets**	**Revenues**	**Assets**	**Revenues**
Assets					
Short-term interbank investments					
Open market investments					
- Banco Panamericano S.A.	Associate	-	1,714	-	-
Interbank deposits					
- Banco Panamericano S.A.	Associate	500,504	2,128	-	-
Marketable securities and derivative financial instruments					
Derivative financial instruments					
- BTG Investments LP	Associate	81,334	76,608	-	-
Other receivables					
Income receivable					
- BTG Global Asset Management Limited.	Subsidiary	-	46,777	15,398	52,685
Sundry					
- Max Casa XIX Empreendimentos Imobiliários S.A.	Associate	4,936	-	-	-
- ACS Omicron Empreendimentos Imobiliários S.A	Associate	12	-	-	-
- Warehouse 1 Empreendimentos Imobiliários S.A.	Associate	432	-	-	-
- Saíra Diamante Empreendimentos Imobiliários S.A.	Associate	10	-	-	-
		587,228	127,227	15,398	52,685

(in thousands of reais)

	Relationship	2011 Assets	2011 Revenues	2010 Assets	2010 Revenues
Liabilities					
Deposits					
Demand deposits					
- BTG Pactual Stigma Participações S.A.	Associate	-	-	89	-
- BTG Pactual Proprietary Feeder (1) Limited	Associate	249	-	-	-
- BTG Investments LP	Associate	2,120	-	-	-
- BTG Pactual Reinsurance Holdings LP	Associate	939	-	-	-
- BTG MB Investments LP	Associate	9,425	-	-	-
- BTG Pactual Beta Participações S.A.	Associate	10	-	-	-
- BTG Pactual Pharma Participações S.A.	Associate	11	-	-	-
- BTG Equity Investments LLC	Associate	194	-	-	-
- BTG Pactual Stigma LLC	Associate	140	-	-	-
- BTG Alpha Participações Ltda.	Associate	70	-	44	-
- BTG Alpha Investments LLC	Associate	1,029	-	5	-
- Sócios e pessoal chave da administração	Partners	449	-	17	-
Time deposits					
- BTG Pactual Stigma Participações S.A.	Associate	110	4	-	-
- BTG Pactual Alpha Participações Ltda.	Associate	258	209	3,371	(342)
- BTG Pactual Beta Participações S.A.	Associate	1,459	168	-	-
- BTG Pactual Pharma Participações S.A.	Associate	1,702	272	-	-
Open market funding					
Own portfólio					
- Banco Panamericano S.A.	Associate	629,374	29,656	-	-
Third-party portfólio					
- Banco Panamericano S.A.	Associate	9,999	-	-	-
Other liabilities					
Securities trading and brokerage					
- BTG Investments LP	Associate	69,420	-	-	-
		726,974	30,309	3,526	(342)

Total compensation paid to key personal in the year was in the amount of R$ 2,961 (R$ 6,662 in 2010) which is considered a short-term benefit.

23. Other information

(in thousands of reais)

a) Cash and cash equivalent

	2011	2010
Balances at the beginning of the period		
Cash and cash equivalents	1,522,813	62,636
Open market investments	16,622,980	7,725,116
Interbank deposits	4,103	541,775
	18,149,896	8,329,527
Balances at the end of the period		
Cash and cash equivalents	517,305	1,522,813
Open market investments	11,424,916	16,622,980
Interbank deposits	545,196	4,103
	12,487,417	18,149,896

b) Commitments and responsibilities

The bank's and its subsidiaries have the following main commitments and responsibilities:

	2011	2010
Co-obligation and risks for guarantees given	5,278,935	1,122,929
Responsibility for the management of	34,477,778	8,034,551
Investment funds and portfolio management (i)	142,531,821	40,246,349
Securities under custody	857,584,457	692,958,980

(i) Records all equity value of investment funds and portfolio.

"Co-obligation and risks for guarantees given", is basically comprised by guarantees granted allocated to exchange trading securities.

"Securities under custody" reflect third party public and private securities positions, under custody with SELIC, CETIP S.A. and BM&FBOVESPA S.A.

"Securities trading and brokerage" represent amounts from derivative financial instruments purchase and sale agreements, related to third party transactions.

24. Subsequent events

On February 8th, 2012, the Bank announced the conclusion of the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital, a lead company in financial transactions, operating in Chile, Peru and Colombia. In connection with this transaction, Banco BTG Pactual will pay to the owners of Celfin a total of US$ 486,000 in cash, of which US$ 196,000 will be used for the purchase of shareholding interest of Banco BTG Pactual, representing 2.423% of the capital.

Such transaction is pending approval from the competent authorities, consequently the Bank has no conditions to determine the fair value of acquired assets and liabilities. Once the transaction is approved, the Bank will determinate the acquisition date and provide the respective evaluation.

On January 31st, 2012 the Bank paid in capital in Banco Panamericano S.A., in the amount of R$ 495,476, with no impact on its proportion of shareholders composition and such transaction is pending approval from BACEN.

On January 31st, 2012, Banco BTG Pactual and Banco Panamericano entered into definitive agreements to purchase 100% of the shares of Brazilian Finance & Real Estate S.A., or BFRE, The total purchase price (subject to adjustment) is approximately R$ 1,2 billion, of which R$ 940 million will be paid by Banco PanAmericano and R$ 270 million will be paid by Banco BTG Pactual.

Additionally, after the definitive agreement, and before the settlement, BFRE will be split into two companies, and the Bank will acquire one of these companies the additional amount of approximately R$ 335 million, which will be used for purchase of certain Real Estate Investment Funds held by BFRE. This transaction is subject to approval of the competent authorities.

Financial Statements

Banco BTG Pactual S.A. and Subsidiaries

December 31, 2010 and 2009
with Independent Auditors' Report on Financial Statements

BANCO BTG PACTUAL S.A. AND SUBSIDIARIES

Financial statements

December 31, 2010 and 2009

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A free translation from Portuguese into English of Independent Auditors' Report on financial statements prepared in accordance with accounting practices adopted in Brazil

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the
Board of Directors and Shareholders
Banco BTG Pactual S.A.

We have audited the accompanying individual and consolidated financial statements of Banco BTG Pactual S.A., identified as Banco BTG Pactual S.A. and Consolidated, respectively, which comprise the balance sheet as at December 31, 2010 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the individual and consolidated financial statements

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco BTG Pactual S.A. as at December 31, 2010, its individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Other matters

As described in Note 1, Banco BTG Pactual S.A. fully merged with BTG Pactual Investimentos S.A. during the year ended December 31, 2010. In compliance with the provisions of the Central Bank of Brazil, we have audited the procedures adopted in the merger processes, which, in our opinion, are in accordance with regulatory standards.

Rio de Janeiro, March 15, 2011

Ernst & Young Terco Auditores Independentes S.S.
CRC 2SP015199/O-6-F-RJ

Flávio Serpejante Peppe
Partner

BANCO BTG PACTUAL S.A.

Balance sheets
December 31, 2010 and 2009
(In thousands of reais)

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Assets				
Current assets	**70,122,775**	19,935,173	**41,887,544**	16,598,375
Cash and cash equivalents	**1,522,813**	62,636	**1,905**	2,010
Short-term interbank investments	**25,984,790**	11,145,090	**18,277,449**	10,649,836
Open market investments	**25,898,050**	10,579,230	**18,191,792**	10,574,990
Interbank deposits	**86,740**	565,860	**85,657**	74,846
Marketable securities and derivative financial instruments	**35,955,633**	5,611,917	**16,170,533**	3,654,886
Own portfolio	**9,358,853**	3,616,001	**6,997,072**	2,367,489
Subject to repurchase agreements	**22,896,953**	513,217	**6,906,033**	343,151
Derivative financial instruments	**1,948,939**	871,802	**1,026,511**	386,627
Subject to guarantees	**1,750,888**	610,897	**1,240,917**	557,619
Interbank transactions	**99,740**	25,639	**99,740**	25,639
Restricted deposits				
Central Bank of Brazil	**99,709**	25,617	**99,709**	25,617
Correspondents	**31**	22	**31**	22
Loans	**2,233,931**	726,350	**1,333,706**	719,856
Loans - private sector	**2,261,385**	782,582	**1,361,010**	776,088
Allowance for loan losses	**(27,454)**	(56,232)	**(27,304)**	(56,232)
Other receivables	**4,283,345**	2,361,558	**5,961,706**	1,544,594
Foreign exchange portfolio	**1,216,971**	706,554	**4,304,283**	706,554
Income receivable	**223,625**	198,263	**68,693**	130,991
Securities trading and brokerage	**1,989,503**	1,022,565	**832,942**	272,587
Sundry	**854,095**	435,911	**756,637**	436,197
Allowance for losses on other receivables	**(849)**	(1,735)	**(849)**	(1,735)
Other assets	**42,523**	1,983	**42,505**	1,554
Other assets	**18,541**	170	**18,541**	170
Temporary investments	**21,682**	-	**21,682**	-
Prepaid expenses	**2,300**	1,813	**2,282**	1,384
Long-term assets	**3,166,469**	1,935,168	**2,900,351**	1,862,407
Marketable securities and derivative financial instruments	**106,167**	44,838	**7,631**	41,689
Derivative financial instruments	**106,167**	44,838	**7,631**	41,689
Interbank transactions	**34,406**	-	**34,406**	-
Restricted deposits				
SFH - Brazilian Housing System	**34,406**	-	**34,406**	-
Loans	**1,467,743**	644,856	**1,452,715**	641,189
Loans - private sector	**1,520,957**	676,314	**1,505,749**	668,268
Allowance for loan losses	**(53,214)**	(31,458)	**(53,034)**	(27,079)
Other receivables	**1,558,153**	1,245,474	**1,405,599**	1,179,529
Foreign exchange portfolio	**56,036**	19,978	**56,036**	19,978
Securities trading and brokerage	**113**	62	**100**	62
Sundry	**1,532,320**	1,275,451	**1,379,779**	1,209,506
Allowance for losses on other receivables	**(30,316)**	(50,017)	**(30,316)**	(50,017)
Permanent assets	**393,131**	56,410	**1,671,902**	891,208
Investments	**4,929**	4,242	**1,446,311**	843,445
Subsidiary companies - in Brazil	**-**	-	**794,502**	386,620
Subsidiary companies - abroad	**-**	-	**648,532**	454,234
Other investments	**7,916**	7,229	**6,144**	5,458
Allowance for losses	**(2,987)**	(2,987)	**(2,867)**	(2,867)
Property and equipment in use	**197,883**	30,518	**194,726**	26,401
Other property and equipment in use	**224,678**	50,556	**219,679**	45,415
Accumulated depreciation	**(26,795)**	(20,038)	**(24,953)**	(19,014)
Deferred charges	**15,444**	19,156	**15,347**	18,868
Organization and expansion costs	**28,800**	29,038	**28,703**	28,703
Accumulated amortization	**(13,356)**	(9,882)	**(13,356)**	(9,835)
Intangible assets	**174,875**	2,494	**15,518**	2,494
Other intangible assets	**176,663**	2,773	**17,201**	2,773
Accumulated amortization	**(1,788)**	(279)	**(1,683)**	(279)
Total assets	**73,682,375**	21,926,751	**46,459,797**	19,351,990

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Liabilities and shareholders' equity				
Current liabilities	**65,917,212**	17,190,138	**38,921,155**	14,634,169
Deposits	**9,414,808**	4,274,571	**6,263,845**	3,129,115
Demand deposits	**2,312,891**	1,278,016	**214,737**	67,066
Interbank deposits - related parties	**-**	-	**348,252**	276,570
Interbank deposits	**338,891**	217,776	**338,891**	217,776
Time deposits	**6,750,196**	2,771,830	**5,349,135**	2,560,215
Other deposits	**12,830**	6,949	**12,830**	7,488
Open market funding	**41,964,393**	9,056,616	**24,549,546**	8,902,543
Own portfolio	**24,182,649**	490,927	**6,778,680**	340,975
Third-party portfolio	**7,392,980**	6,984,211	**7,382,102**	6,980,090
Freely-traded portfolio	**10,388,764**	1,581,478	**10,388,764**	1,581,478
Funds from securities issued and accepted	**1,233,358**	323,916	**1,227,339**	323,916
Real estate bonds	**1,227,339**	323,916	**1,227,339**	323,916
Liabilities for foreign securities	**6,019**	-	**-**	-
Interbank transactions	**1**	1	**1**	1
Unsettled receipts and payments	**1**	1	**1**	1
Borrowings	**55,161**	60,948	**470,256**	7,655
Foreign borrowings	**55,161**	60,948	**470,256**	7,655
Local onlending - official institutions	**55,653**	323	**55,653**	323
FINAME - Special Agency for Industrial Financing	**55,653**	323	**55,653**	323
Derivative financial instruments	**1,965,767**	859,359	**1,084,837**	377,617
Derivative financial instruments	**1,965,767**	859,359	**1,084,837**	377,617
Other liabilities	**11,228,071**	2,614,404	**5,269,678**	1,892,999
Collection of taxes and mandatory contributions	**19,841**	3,187	**19,265**	2,915
Foreign exchange portfolio	**1,162,107**	744,270	**4,240,523**	744,270
Social and statutory	**230,601**	227,206	**175,660**	159,289
Tax and social security	**107,363**	343,312	**15,455**	286,864
Securities trading and brokerage	**9,528,952**	1,231,223	**767,824**	670,295
Sundry	**179,207**	65,206	**50,951**	29,366
Non-current liabilities	**2,138,280**	1,483,716	**1,911,759**	1,464,924
Deposits	**1,158,736**	1,248,144	**1,158,736**	1,248,144
Time deposits	**1,158,736**	1,248,144	**1,158,736**	1,248,144
Funds from securities issued and accepted	**72,140**	6,294	**72,140**	6,294
Real estate bonds	**72,140**	6,294	**72,140**	6,294
Local onlending - official institutions	**44,447**	-	**44,447**	-
FINAME - Special Agency for Industrial Financing	**44,447**	-	**44,447**	-
Derivative financial instruments	**199,919**	76,869	**99,696**	76,382
Derivative financial instruments	**199,919**	76,869	**99,696**	76,382
Other liabilities	**663,038**	152,409	**536,740**	134,104
Foreign exchange portfolio	**54,172**	20,127	**54,172**	20,127
Social and statutory	**41,443**	-	**29,448**	-
Tax and social security	**442,811**	109,061	**413,857**	92,559
Securities trading and brokerage	**13,695**	2,040	**13,695**	2,040
Sundry	**110,917**	21,181	**25,568**	19,378
Deferred income	**24,290**	8,397	**24,290**	8,397
Shareholders' equity	**5,602,593**	3,244,500	**5,602,593**	3,244,500
Capital - local residents	**2,971,350**	555,007	**2,971,350**	555,007
Capital reserves	**-**	7,079	**-**	7,079
Income reserves	**2,631,243**	831,048	**2,631,243**	831,048
Retained earnings	**-**	1,851,366	**-**	1,851,366
Total liabilities and shareholders' equity	**73,682,375**	21,926,751	**46,459,797**	19,351,990

See accompanying notes.

BANCO BTG PACTUAL S.A.

Statements of income
Years and semester ended December 31, 2010 and 2009
(In thousands of reais, except per share information)

	Consolidated			Banco BTG Pactual S.A.		
	2010	2010	2009	2010	2010	2009
	2nd Semester	Year	Year	2nd Semester	Year	Year
Financial income	**2,310,897**	**3,510,138**	1,996,377	**1,968,421**	**3,096,264**	1,990,539
Loans	**187,345**	**327,222**	190,518	**176,822**	**315,422**	180,853
Marketable securities	**1,813,676**	**2,698,331**	1,696,815	**1,662,470**	**2,506,628**	1,669,579
Foreign Exchange	**56,098**	**68,760**	143,572	**33,355**	**38,676**	140,107
Derivatives financial instruments	**253,778**	**415,825**	(34,528)	**95,774**	**235,538**	(22,289)
Financial expenses	**(1,622,310)**	**(2,428,516)**	(1,479,937)	**(1,540,487)**	**(2,347,860)**	(1,486,581)
Funding operations	**(1,560,193)**	**(2,458,926)**	(1,071,196)	**(1,537,040)**	**(2,437,091)**	(1,135,292)
Borrowings and onlending	**(55,992)**	**37,440**	(155,182)	**(2,646)**	**95,907**	(133,541)
Allowance for losses on loans and other receivables	**(6,125)**	**(7,030)**	(253,559)	**(6,093)**	**(6,676)**	(195,459)
Gross financial income	**688,597**	**1,081,622**	516,440	**427,934**	**748,404**	503,958
Other operating income (expenses)	**228,634**	**340,642**	869,361	**323,435**	**441,515**	638,000
Income from services rendered	**451,100**	**803,014**	671,241	**239,278**	**435,067**	362,183
Personnel expenses	**(114,240)**	**(227,700)**	(180,960)	**(87,458)**	**(176,227)**	(139,223)
Other administrative expenses	**(161,495)**	**(255,204)**	(159,346)	**(128,623)**	**(211,713)**	(144,558)
Tax charges, other than income taxes	**(119,190)**	**(188,287)**	(127,625)	**(68,375)**	**(124,986)**	(101,575)
Equity pickup from subsidiaries	**-**	**-**	-	**247,099**	**360,473**	214,175
Other operating income	**197,455**	**238,688**	702,346	**122,381**	**160,353**	459,226
Other operating expenses	**(24,996)**	**(29,869)**	(36,295)	**(867)**	**(1,452)**	(12,228)
Operating income	**917,221**	**1,422,264**	1,385,801	**751,369**	**1,189,919**	1,141,958
Non-operating income	**(1,238)**	**(366)**	8,031	**(1,106)**	**(964)**	3,278
Income before taxes and profit sharing	**915,983**	**1,421,898**	1,393,832	**750,264**	**1,188,955**	1,145,236
Income and social contribution taxes	**(314,969)**	**(381,552)**	(477,374)	**(174,793)**	**(202,930)**	(322,096)
Provision for income tax	**(36,675)**	**(69,233)**	(39,712)	**81,850**	**81,891**	1,081
Provision for social contribution tax	**(20,591)**	**(39,644)**	(23,064)	**10**	**31**	581
Deferred tax assets	**(257,703)**	**(272,675)**	(414,598)	**(256,653)**	**(284,852)**	(323,758)
Employees' statutory profit or gain sharing	**(126,381)**	**(229,440)**	(287,173)	**(100,837)**	**(175,119)**	(193,855)
Net income for the semester/year	**474,633**	**810,906**	629,285	**474,633**	**810,906**	629,285
Interest on own capital	**15,440**	**15,440**	-	**15,440**	**15,440**	-
Number of outstanding shares at the end of semester/ year				**2,400,000,000**	**2,400,000,000**	1,253,583,889
Earnings per share - R$				**0.20**	**0.34**	0.50

See accompanying notes.

BANCO BTG PACTUAL S.A.

Statements of changes in shareholders' equity - Banco BTG Pactual S.A.
Years and semester ended December 31, 2010 and 2009
(In thousands of reais, except dividends per share)

BANCO BTG PACTUAL S.A.

Statements of cash flows
Years and semester ended December 31, 2010 and 2009

	Consolidated			Banco BTG Pactual S.A.		
	2010	2010	2009	2010	2010	2009
	2nd semester	Year	Year	2nd semester	Year	Year
Operating activities						
Net income for the semester period/year	474,633	810,906	629,285	474,633	810,906	629,285
Adjusted net income	5,845	11,740	11,181	(241,739)	(349,609)	(262,679)
Equity pickup from subsidiaries	-	-	-	(247,099)	(360,473)	(214,175)
Depreciation and amortization	5,845	11,740	11,181	5,360	10,864	10,894
Interest on own capital	-	-	-	-	-	(59,398)
Adjusted net income for the six month period/year	480,478	822,646	640,466	232,984	461,297	366,606
(Increase)/decrease in short-term interbank investments	(5,927,533)	(5,704,034)	(2,672,313)	(3,984,070)	(3,758,919)	(2,672,352)
(Increase)/decrease in marketable securities and derivative instruments	(24,206,490)	(29,175,587)	(907,055)	(7,814,821)	(11,751,055)	(137,150)
(Increase)/decrease in loans	(1,692,715)	(2,330,468)	224,093	(820,430)	(1,425,376)	224,174
(Increase)/decrease in other receivables and other assets	506,119	(2,275,006)	5,855,225	(956,894)	(4,684,133)	6,493,106
(Increase)/decrease in interbank transactions	(69,739)	(108,507)	64,529	(69,739)	(108,507)	64,529
(Decrease)/increase in other liabilities	6,523,082	9,124,296	(5,749,084)	479,142	3,779,315	(6,013,319)
(Decrease)/increase in deferred income	13,821	15,893	6,420	13,821	15,893	6,420
Interest on own capital	-	-	-	-	-	59,398
Dividends received from subsidiaries	-	-	-	-	-	858,907
Cash generated from/(used in) operating activities	(24,372,977)	(29,630,767)	(2,537,719)	(12,920,097)	(17,471,485)	(749,681)
Investing activities						
Sale of investments	-	-	2,218	-	-	813
Decrease in deferred charges	-	238	-	-	-	-
Sale of property and equipment in use	-	-	1,277	-	-	1,277
Acquisition of investments	(271)	(687)	(5,229)	(241,977)	(242,393)	(1,070)
Acquisition of property and equipment in use	(172,600)	(174,122)	(2,536)	(172,092)	(174,264)	(2,536)
Acquisition of intangible assets	(170,187)	(173,890)	(2,773)	(10,962)	(14,428)	(2,773)
Cash generated from/(used in) investing activities	(343,058)	(348,461)	(7,043)	(425,031)	(431,085)	(4,289)
Financing activities						
Increase/(decrease) in deposits	2,826,912	5,050,829	2,501,913	1,280,996	3,045,322	689,348
Increase/(decrease) in open market funding	30,136,677	32,907,777	7,071,644	12,733,650	15,647,003	7,123,166
Increase/(decrease) in borrowings and onlending	(69,063)	93,990	(650,669)	297,636	562,378	(701,520)
Increase/(decrease) in funds from securities issued and accepted	395,863	975,288	200,241	390,295	969,269	309,477
Capital increase from issuance of shares	2,409,264	2,409,264	-	2,409,264	2,409,264	-
Interest on own capital	(15,440)	(15,440)	-	(15,440)	(15,440)	-
Dividends distributed	(700,576)	(846,637)	(1,250,000)	(700,576)	(846,637)	(1,250,000)
Cash generated from/(used in) financing activities	34,983,637	40,575,071	7,873,129	16,395,825	21,771,159	6,170,471
Increase/(decrease) in cash and cash equivalents	10,276,602	10,595,843	5,328,367	3,050,697	3,868,589	5,416,501
Cash and cash equivalents						
At beginning of the semester/year	8,657,768	8,329,527	3,001,160	8,591,539	7,773,647	2,357,146
At end of the semester/year	18,925,370	18,925,370	8,329,527	11,642,236	11,642,236	7,773,647
Increase/(decrease) in cash and cash equivalents	10,276,602	10,595,843	5,328,367	3,050,697	3,868,589	5,416,501

See accompanying notes.

BANCO BTG PACTUAL S.A.

Notes to financial statements
December 31, 2010 and 2009
(In thousands of reais)

1. Operations

Banco BTG Pactual S.A. (the Bank) is a multiple bank duly authorized to operate jointly with its subsidiaries in offering financial products and services related to commercial banking activities, including foreign exchange, investments, loans, financing, leasing and mortgage financing arrangements.

Transactions are conducted as part of a group of institutions, which participate jointly in the financial market, and certain transactions are carried out with the intermediation of other member entities of the BTG Group.

In April 2009, the shareholders entered into an agreement for sale of 100% of the Banco UBS Pactual S.A. shares to BTG Investments, LP, which was approved by the Central Bank of Brazil (BACEN) on September 16, 2009.

Continuing steps of corporate restructuring to simplify the corporate structure of the bank and consequently reduce the financial and operational costs, on April 26, 2010 the bank's parent BTG Pactual Investmentos S.A. was merged into the bank at book value as of March 31, 2010; the transaction did not result in increased social capital, however, the goodwill on acquisition of the bank generated a tax credit of R$ 87,183, recognized in the books upon the act of incorporation. The merger was approved by BACEN on December 21, 2010.

On September 20, 2010 the bank acquired total shares of Coomex, which operates and holds a leading position in the national energy sector concerning the sale and provision of specialized energy services. The acquisition is an important initiative of BTG Pactual to consolidate a physical and financial structure to trade commodities and expand the mix of products linked with energy offered to its customers.

2. Presentation of financial statements

The financial statements of the Bank and its subsidiaries were prepared in accordance with the accounting practices adopted in Brazil in association with the standards and instructions issued by BACEN, and are presented in conformity with the Chart of Accounts for Institutions of the National Financial System - COSIF.

2. Presentation of financial statements (Continued)

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires that management use appropriate judgment to determine and record accounting estimates. The assets and liabilities subject to these estimates and assumptions basically refer to the deferred income tax asset and liability, allowance for losses on loan and other receivables, provision for the suspended collection of taxes and contributions, and provision for contingent liabilities. Actual results may significantly differ from these estimates due to the underlying uncertainty of the determination process. The Bank and its subsidiaries review these estimates and assumptions on a regular basis.

3. Consolidated financial statements

Consolidated financial statements were prepared in accordance with consolidation criteria established by BACEN. Therefore, intercompany shareholdings, assets and liabilities and income and expenses were eliminated upon consolidation.

3. **Consolidated financial statements** (Continued)

These consolidated financial statements include the stand-alone financial statements of Banco BTG Pactual S.A. and those of its direct and indirect subsidiaries, as follows:

	Share in total capital - %		
	2010		**2009**
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	**99.99**		99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	**99.99**		99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	**99.99**		99.99
BTG Pactual Corretora de Mercadorias Ltda.	**99.99**		99.99
BTG Pactual Corporate Services Ltda.	**0.01**		99.40
BTG Pactual Securitizadora S.A.	**99.99**		99.99
BTG Pactual Agente Comercializador de Energia Ltda.	**99.96**		99.96
BTG Pactual Banking Limited	**100.00**		100.00
BTG Pactual Holding International S.A.	**99.99**		-
BTGP Recovery Holdings S.A.	**99.99**		-
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	**99.98**		99.98
BTG Pactual WM Gestão de Recursos Ltda.	**99.99**		99.99
BTG Pactual Overseas Corporation	**100.00**		100.00
BTG Pactual Gestora de Recursos Ltda.	**99.99**		99.99
BTG Pactual Corporate Services Ltda.	**99.99**		-
BTG Pactual Serviços Energéticos Ltda.- Coomex	**100.00**		-
BTG Pactual Empresa Operadora do Mercado Energético Ltda.- Coomex	**99.99**		-
BTG Pactual Absolute Return II Master Fund LP	**100.00**	1	-
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	**100.00**		-
BTG Pactual International Port Fund SPC - CLASS C	**99.83**		-
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	**100.00**		100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	**100.00**		
BTG Pactual Vanguarda Fundo de Investimento em Participações	**92.73**		92.73
BTG Pactual Saúde Fundo de Investimento em Participações	**100.00**		-
Nala Fundo de Investimento em Participações	**100.00**		-

The financial statements of foreign subsidiaries, originally prepared in U.S. dollars, were translated into Brazilian reais at the commercial U.S. dollar exchange rate in force at the balance sheet dates.

In consolidated financial statements the effects of exchange gains/losses on investments abroad are recorded in lines comprising the statement of income, considering the nature of respective asset or liability accounts.

4. Significant accounting practices

The most significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are as follows:

a) Operating results are determined on the accrual basis of accounting.

b) Current and long-term assets are stated at their realizable values, including, when applicable, accrued interest and monetary (on a daily pro rata basis) and exchange variation, less the related unrealized income and/or allowance for losses.

c) Marketable securities are valued and classified in accordance with criteria established by BACEN's Circular No. 3068/01, into the following categories: I - trading; II - available for sale; and III - held to maturity. Marketable securities classified under category I are adjusted to market value, with the related adjustments having a corresponding entry in the statement of income; marketable securities classified under category II are recorded at acquisition cost plus accrued interest, which is recorded in the statement of income and adjusted to market value, with the related adjustments having a corresponding entry in a specific shareholders' equity account, net of tax effects; marketable securities classified into category III are valued at acquisition cost plus accrued interest and recorded in the statement of income.

d) Financial instrument-based transactions carried out on the Bank's own behalf or which do not comply with hedging criteria (mainly derivatives used to manage global risk exposure) are stated at market value, with the related gains and losses, whether realized or not, being recorded directly in the statement of income.

   Derivative financial instruments intended as a hedge against risk exposures or to change the characteristics of financial assets and liabilities, and which (i) closely relate to the hedged item with regard to changes in its market value throughout the contract term; and, (ii) are considered to effectively hedge against the associated risk exposure, are classified as market risk hedge, with the financial assets and liabilities, as well as the related financial instruments, being recorded at market value, and gains and losses, whether realized or not, are directly posted or charged to the statement of income, as applicable.

4. Significant accounting practices (Continued)

e) The fair value of marketable securities, derivatives and other rights and liabilities, as applicable, is calculated considering market quotes, pricing models, or the price of other similar financial instruments. Thus, actual results may differ from the estimates on the financial settlement of the operations.

f) The daily adjustments of futures operations are recorded as income or expenses as effectively earned or incurred. The premiums paid or received in connection with transactions involving stock options, other financial assets and commodities are recorded in related asset and liability accounts at the amounts paid or received, adjusted to market prices with a matching entry in the statement of income. The nominal value of purchase and sale agreements for stock and other financial assets and commodities traded in futures and options markets is recorded in memorandum accounts.

g) Forward transactions involving financial assets and commodities are recorded at the ending value of the relevant contract, net of the difference between that value and the price of the asset or right, in the appropriate asset or liability account. Income and expenses are recognized over the contract term.

h) Assets and liabilities resulting from swap and NDF transactions are marked to market and recorded in the balance sheet based on the amount receivable and payable of each contract, with the net result of the mark to market effect flowing through the statement of income, and no amounts receivable and payable being offset. The notional amount of contracts is recorded in memorandum accounts.

i) The allowance for losses on loans and other receivables is estimated based on an analysis of operations and specific risks of each portfolio, pursuant to criteria established by National Monetary Council (CMN) Resolution No. 2682/99.

j) Investments in subsidiaries are accounted for under the equity method. Stock exchange membership certificates are recorded at acquisition cost and restated considering amounts informed by related institutions, with the resulting adjustments being recorded as capital reserves under shareholders' equity. Securities held under custody in CETIP - Custody and Settlement (CETIP) were restated through demutualization date. Other permanent investments are valued at acquisition cost, less allowance for losses, as applicable.

4. **Significant accounting practices** (Continued)

k) Property and equipment in use are stated at acquisition cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Deferred charges mainly comprise leasehold improvements. Amortization is calculated on the straight-line basis considering the estimated period of use and/or lease.

l) Intangible assets are recognized only when their cost can be reliably measured and it is probable that the expected future economic benefits attributed to them will be transferred to the bank.

Intangible assets independently acquired are initially measured at cost. The cost of intangible assets acquired in a business combination consists of the fair value on the acquisition date. After the initial recognition, intangible assets are recorded at cost, less any accumulated amortization and any impairment.

The useful life of intangible assets is considered definite or indefinite. Intangible assets with a definite useful life are amortized over their useful economic life. The amortization period of an intangible asset with the definite useful life are revised at least once a year. Changes in the expected useful life or proportionate use expected for future benefits added to assets are recognized through change of the amortization period or method, where appropriate, and treated as changes in accounting estimates.

Amortization expense related to intangible assets with a definite useful life is recognized in the income statement as an expense consistent with the intangible asset function.

The amortization is calculated on the straight-line method over their estimated useful lives.

m) Impairment of assets is recognized as loss in the income statement for the period whenever there is clear evidence of reduction in their recoverable value. This procedure is carried out at least every year end.

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

4. Significant accounting practices (Continued)

o) The provision for income and social contribution taxes is established based on accounting profit adjusted by additions and exclusions defined in tax legislation. Deferred income and social contribution taxes are calculated on temporary differences where the realization of such amounts is considered to be probable. Income tax is calculated at 15% plus a 10% surcharge on annual taxable profit in excess of R$ 240 and Social contribution tax is calculated at 15%.

p) Contingent assets and liabilities and legal, tax and social security obligations are recognized, measured and disclosed pursuant to the following criteria:

Contingent assets - Contingent assets are not recognized in financial statements, unless there is evidence ensuring their realization and they are based on unappealable decisions.

Contingent liabilities - These are recognized in financial statements when, based on the opinion of legal advisors and management, the risk of loss on a judicial or administrative proceeding is considered probable, and when amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the explanatory notes, while those classified as remote losses do not require the recording of provisions or disclosure.

Legal liabilities - tax and social security - These refer to legal disputes challenging the legal and constitutional nature of some taxes and mandatory contributions. The amount under dispute is measured and the amount is recorded as liability.

q) Pursuant to CMN Resolution No. 3604/08, the cash flow statement account “Cash and cash equivalents” includes cash on hand and bank deposits, together with short-term highly liquid investments that are subject to insignificant risk of changes in value and maturity of 90 days or less.

r) Earnings per share are calculated based on the number of outstanding shares at the balance sheet dates.

5. Cash and cash equivalents

The balance of this account refers basically to deposits with first-tier banks abroad.

6. Short-term interbank investments

For purposes of disclosure in the statement of cash flows, short-term interbank investments maturing in 90 days or less are deemed as cash and cash equivalents.

a) Open market investments

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
i. By position/security type				
Own portfolio				
National Treasury Bills	**863**	-	**863**	-
National Treasury Notes	**479,089**	2,053,648	**479,089**	2,053,618
Corporate bonds	**270,642**	4,210	**-**	-
	750,594	2,057,858	**479,952**	2,053,618
Third-party portfolio				
Financial Treasury Bills	**1,514,507**	365,043	**1,514,507**	365,043
National Treasury Bills	**717,743**	253,032	**717,743**	253,032
National Treasury Notes	**5,351,139**	6,332,822	**5,351,139**	6,332,822
	7,583,389	6,950,897	**7,583,389**	6,950,897
Short position				
National Treasury Bills	**3,345,209**	-	**3,345,209**	-
National Treasury Notes	**6,783,242**	1,570,475	**6,783,242**	1,570,475
Securities issued by foreign governments	**7,435,616**	-	**-**	-
	17,564,067	1,570,475	**10,128,451**	1,570,475
	25,898,050	10,579,230	**18,191,792**	10,574,990
ii. By maturity				
Up to 90 days	**17,398,454**	7,725,116	**11,637,311**	7,720,876
Over 90 days	**8,499,596**	2,854,114	**6,554,481**	2,854,114

b) Interbank deposits

The balance of this account refers to highly liquid short-term interbank investments with first-tier banks.

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
i. By security				
Interbank deposits - CDI	**85,657**	54,473	**85,657**	54,473
Investments in foreign currency - Overnight	**1,083**	511,387	**-**	20,373
	86,740	565,860	**85,657**	74,846
ii. By maturity				
Up to 90 days	**4,103**	541,775	**3,020**	50,761
Over 90 days	**82,637**	24,085	**82,637**	24,085

(In thousands of reais)

7. Marketable securities and derivative financial instruments

a) Marketable securities

Securities comprising the Bank's and its subsidiaries' own portfolio are classified as trading securities as follows:

	Consolidated			
	2010		2009	
	Cost	Market	Cost	Market
Own portfolio				
Federal Government securities				
Financial Treasury Bills	**643,266**	**643,268**	11,181	11,182
National Treasury Bills	**967,375**	**964,038**	339,792	339,806
National Treasury Notes	**1,391,164**	**1,355,546**	264,325	264,796
Bank Deposit Certificates	**65,394**	**65,384**	114,446	114,374
Debentures	**850,405**	**842,974**	379,707	378,360
Bank Credit Certificate	**67,678**	**66,337**	102,447	102,155
Real Estate Bond	**777**	**777**	1,338	1,338
Investment fund shares	**1,136,872**	**1,136,872**	493,932	493,932
Stock	**2,141,872**	**2,161,066**	1,093,776	1,139,562
Securities issued to cover court-ordered debts	**28,951**	**674**	28,750	473
Agribusiness credit bill	**23,148**	**23,151**	-	-
Promissory notes	**-**	**-**	80,646	80,675
Real Estate Receivables Certificate	**444,764**	**444,764**	209,141	209,136
Certificate accounts subject to lottery prizes	**93**	**93**	-	-
Securities issued by foreign governments	**256,353**	**322,395**	36,231	37,170
Corporate bonds (i)	**1,443,817**	**1,331,514**	434,641	434,348
T-Bill	**-**	**-**	8,695	8,694
	9,461,929	**9,358,853**	3,599,048	3,616,001
Subject to repurchase agreements				
Federal Government securities				
Financial Treasury Bills	**114,335**	**114,334**	2,057	2,057
National Treasury Bills	**976,105**	**974,995**	11,526	11,530
National Treasury Notes	**5,491,402**	**5,431,641**	329,352	329,564
Debentures	**385,063**	**385,063**	-	-
Securities issued by foreign governments	**15,878,037**	**15,877,177**	-	-
Corporate bonds (i)	**114,835**	**113,743**	168,014	170,066
	22,959,777	**22,896,953**	510,949	513,217
Subject to guarantees				
Federal government securities				
Financial Treasury Bills	**105,145**	**105,146**	-	-
National Treasury Bills	**509,010**	**508,418**	44,885	44,804
National Treasury Notes	**178,922**	**179,365**	60,427	60,302
Stock	**951,880**	**957,959**	461,115	485,087
Bank Deposit Certificates	**-**	**-**	20,662	20,704
	1,744,957	**1,750,888**	587,089	610,897

(i) These refer to securities of Brazilian companies issued abroad, which are part of the portfolio of subsidiary BTG Pactual Banking Limited and BTG Pactual Absolute Return Master Fund II LP.

(In thousands of reais)

7. Marketable securities and derivative financial instruments (Continued)

a) Marketable securities (Continued)

	Banco BTG Pactual S.A.			
	2010		2009	
	Cost	Market	Cost	Market
Own portfolio				
Federal government securities				
Financial Treasury Bills	**627,785**	**627,782**	11,091	11,092
National Treasury Bills	**967,375**	**964,038**	339,792	339,806
National Treasury Notes	**1,374,139**	**1,338,275**	230,751	231,320
Bank Deposit Certificates	**41,447**	**41,437**	114,446	114,374
Debentures	**822,734**	**815,302**	379,707	378,360
Bank Credit Certificate	**67,678**	**66,337**	102,447	102,155
Real Estate Bond	**777**	**777**	1,338	1,338
Investment fund shares	**2,606,915**	**2,606,915**	602,078	602,078
Stock	**94,671**	**90,771**	274,811	296,682
Securities issued to cover court-ordered debts	**28,951**	**674**	28,750	473
Promissory notes	-	-	80,646	80,675
Real Estate Receivables Certificate	**444,764**	**444,764**	209,141	209,136
	7,077,236	**6,997,072**	2,374,998	2,367,489
Subject to repurchase agreements				
Federal government securities				
Financial Treasury Bills	**114,335**	**114,334**	2,057	2,057
National Treasury Bills	**976,105**	**974,995**	11,526	11,530
National Treasury Notes	**5,491,402**	**5,431,641**	329,352	329,564
Debentures	**385,063**	**385,063**	-	-
	6,966,905	**6,906,033**	342,935	343,151
Subject to guarantees				
Federal government securities				
Financial Treasury Bills	**104**	**104**	-	-
National Treasury Bills	**509,010**	**508,418**	44,885	44,804
National Treasury Notes	**119,206**	**118,644**	7,012	7,024
Stock	**597,605**	**613,751**	461,115	485,087
Bank Deposit Certificates	**-**	**-**	20,662	20,704
	1,225,925	**1,240,917**	533,674	557,619

(In thousands of reais)

7. Marketable securities and derivative financial instruments (Continued)

b) Derivative financial instruments

	Consolidated 2010			
	Assets		Liabilities	
	Cost	Market	Cost	Market
Derivative financial instruments				
Swap transactions	**275,862**	**313,759**	**224,284**	**229,590**
Forward transactions - receivables and payables	**1,357,962**	**1,355,631**	**1,360,226**	**1,360,086**
Option premiums	**274,587**	**253,705**	**400,986**	**370,103**
Non Deliverable Forward (NDF)	**32,108**	**132,011**	**106,790**	**205,907**
	1,940,519	**2,055,106**	**2,092,286**	**2,165,686**
Current amount	**-**	**1,948,939**	**-**	**1,965,767**
Long-term amount	**-**	**106,167**	**-**	**199,919**

	Consolidated 2009			
	Assets		Liabilities	
	Cost	Market	Cost	Market
Derivative financial instruments				
Swap transactions	71,306	66,714	100,605	109,981
Forward transactions - receivables and payables	478,655	478,635	478,283	478,282
Option premiums	132,248	136,220	177,253	167,872
Non Deliverable Forward (NDF)	110,286	235,071	75,156	180,093
	792,495	916,640	831,297	936,228
Current amount	-	871,802	-	859,359
Long-term amount	-	44,838	-	76,869

(In thousands of reais)

7. Marketable securities and derivative financial instruments (Continued)

b) Derivative financial instruments (Continued)

	Banco BTG Pactual S.A.			
	2010			
	Assets		Liabilities	
	Cost	Market	Cost	Market
Derivative financial instruments				
Swap transactions	**194,189**	**230,930**	**174,269**	**177,137**
Forward transactions - receivables and payables	**655,905**	**653,573**	**655,294**	**655,155**
Option premiums	**159,289**	**113,227**	**280,374**	**240,556**
Non Deliverable Forward (NDF)	**32,108**	**36,412**	**106,790**	**111,685**
	1,041,491	**1,034,142**	**1,216,727**	**1,184,533**
Current amount	**-**	**1,026,511**	**-**	**1,084,837**
Long-term amount	**-**	**7,631**	**-**	**99,696**

	Banco BTG Pactual S.A.			
	2009			
	Assets		Liabilities	
	Cost	Market	Cost	Market
Derivative financial instruments				
Swap transactions	55,742	48,959	93,560	101,837
Forward transactions - receivables and payables	141,456	141,436	141,417	141,416
Option premiums	121,404	127,259	167,143	154,021
Non Deliverable Forward (NDF)	110,286	110,662	75,156	56,725
	428,888	428,316	477,276	453,999
Current amount	-	386,627	-	377,617
Long-term amount	-	41,689	-	76,382

8. Credit operations

Loans are classified into risk levels in accordance with criteria established by CMN Resolution No. 2682/99.

This classification considers, among other aspects, a regular review of transactions, default levels, client's background and guarantees obtained, as applicable.

The allowance for loan losses is calculated considering the client's risk level classification, as defined in aforementioned Resolution.

(In thousands of reais)

8. Credit operations (Continued)

Credit operations and other similar financing arrangements are as follows:

a) Credit operations

				Consolidated			
				2010		2009	
Type of credit	Client	Business Activity	Risk level	Balance	Allowance	Balance	Allowance
Loans	Corporate	Rural	AA	73,708	-	-	-
	Corporate	Manufacture	AA	103,229	-	7,069	-
	Corporate	Commerce	AA	1,338	-	8,431	-
	Corporate	Services	AA	1,323,476	-	1,828	-
	Individual	-	AA	46,512	-	42,110	-
	Corporate	Rural	A	28,815	(143)	-	-
	Corporate	Manufacture	A	55,520	(278)	1,214	(6)
	Corporate	Commerce	A	18,195	(91)	15,137	(76)
	Corporate	Services	A	270,176	(1,358)	33,646	(168)
	Individual	-	A	292,488	(7,624)	457,960	(2,290)
	Corporate	Manufacture	B	9,314	(93)	88,906	(889)
	Corporate	Commerce	B	308	(3)	26,582	(266)
	Corporate	Services	B	177,319	(1,773)	252,819	(2,528)
	Individual	-	B	958	(10)	1,841	(18)
	Corporate	Manufacture	C	22,797	(684)	3,430	(103)
	Corporate	Commerce	C	-	-	6,535	(196)
	Corporate	Services	C	-	-	8,186	(246)
	Corporate	Manufacture	D	15,411	(1,541)	7,136	(714)
	Corporate	Services	D	-	-	38,202	(3,820)
	Individual	-	D	-	-	83,200	(8,320)
	Corporate	Manufacture	E	-	-	32,919	(9,876)
	Corporate	Services	E	90,417	(27,125)	-	-
	Corporate	Manufacture	F	-	-	11,674	(5,837)
	Corporate	Manufacture	G	25,568	(17,898)	-	-
	Corporate	Manufacture	H	20,893	(20,893)	16,191	(16,191)
	Corporate	Services	H	-	-	32,063	(32,063)
				2,576,442	(79,514)	1,177,078	(83,607)
Financing	Corporate	Manufacture	AA	455,013	-	18,182	-
	Corporate	Services	AA	362,262	-	-	-
	Corporate	Rural	AA	50,151	-	-	-
	Individual	-	AA	6,347	-	-	-
	Corporate	Manufacture	A	104,541	(523)	176,024	(881)
	Corporate	Manufacture	B	-	-	13,711	(137)
	Corporate	Commerce	B	15,051	(150)	-	-
	Individual	-	C	7,400	(222)	5,175	(155)
	Corporate	Manufacture	D	1,887	(189)	1,541	(154)
	Individual	-	D	-	-	1,753	(175)
	Corporate	Manufacture	H	-	-	2,579	(2,579)
				1,002,652	(1,084)	218,966	(4,081)
Onlending FINAME/BNDES	Corporate	Manufacture	AA	76,262	-	-	-
	Corporate	Commerce	AA	10,227	-	-	-
	Corporate	Rural	A	-	-	325	(2)
	Corporate	Manufacture	A	9,205	(46)	-	-
	Corporate	Services	A	4,841	(24)	-	-
				100,535	(70)	325	(2)
Securities financing				102,713	-	62,527	-
				3,782,342	(80,668)	1,458,896	(87,690)
Current amount				2,261,385	(27,454)	782,582	(56,232)
Long-term amount				1,520,957	(53,214)	676,314	(31,458)

BANCO BTG PACTUAL S.A.

Notes to financial statements (Continued)
December 31, 2010 and 2009
(In thousands of reais)

8. Credit operations (Continued)

a) Credit operations (Continued)

i) By type of client, business activity and risk level

				Banco BTG Pactual S.A.			
				2010		2009	
Type of credit	Client	Business activity	Risk level	Balance	Allowance	Balance	Allowance
Loans	Corporate	Manufacture	AA	103,230	-	2,741	-
	Corporate	Commerce	AA	1,338	-	8,431	-
	Corporate	Rural	AA	73,708	-	-	-
	Corporate	Services	AA	454,515	-	1,828	-
	Individual	-	AA	46,512	-	36,277	-
	Corporate	Rural	A	28,815	(143)	-	-
	Corporate	Manufacture	A	55,520	(278)	1,214	(6)
	Corporate	Commerce	A	18,195	(91)	15,137	(76)
	Corporate	Services	A	241,587	(1,208)	33,646	(168)
	Individual	-	A	292,488	(7,624)	457,960	(2,290)
	Corporate	Manufacture	B	9,314	(93)	88,906	(889)
	Corporate	Commerce	B	308	(3)	26,582	(266)
	Corporate	Services	B	159,285	(1,593)	252,819	(2,528)
	Individual	-	B	958	(10)	1,841	(18)
	Corporate	Manufacture	C	22,797	(684)	3,430	(103)
	Corporate	Commerce	C	-	-	6,535	(196)
	Corporate	Services	C	-	-	8,186	(246)
	Corporate	Manufacture	D	15,411	(1,541)	7,136	(714)
	Corporate	Services	D	-	-	38,202	(3,820)
	Individual	-	D	-	-	83,200	(8,320)
	Corporate	Manufacture	E	-	-	32,919	(9,876)
	Corporate	Services	E	90,417	(27,125)	-	-
	Corporate	Manufacture	G	25,568	(17,898)	-	-
	Corporate	Manufacture	F	-	-	11,674	(5,837)
	Corporate	Rural	H	-	-	16,191	(16,191)
	Corporate	Services	H	-	-	27,684	(27,684)
	Corporate	Manufacture	H	20,893	(20,893)	-	-
				1,660,859	(79,184)	1,162,538	(79,228)
Financing	Corporate	Manufacture	AA	455,013	-	18,182	-
	Corporate	Services	AA	362,262	-	-	-
	Corporate	Rural	AA	50,151	-	-	-
	Individual	-	AA	6,347	-	-	-
	Corporate	Manufacture	A	104,541	(523)	176,024	(881)
	Corporate	Manufacture	B	-	-	13,711	(137)
	Corporate	Commerce	B	15,051	(150)	-	-
	Individual	-	C	7,400	(222)	5,175	(155)
	Corporate	Manufacture	D	1,887	(189)	1,541	(154)
	Individual	-	D	-	-	1,753	(175)
	Corporate	Manufacture	H	-	-	2,579	(2,579)
				1,002,652	(1,084)	218,966	(4,081)
On lending FINAME/BNDES	Corporate	Manufacture	AA	76,262	-	-	-
	Corporate	Commerce	AA	10,227	-	-	-
	Corporate	Rural	A	-	-	325	(2)
	Corporate	Manufacture	A	9,205	(46)	-	-
	Corporate	Services	A	4,841	(24)	-	-
				100,535	(70)	325	(2)
Securities financing	Corporate	Services	AA	102,713	-	62,527	-
				2,866,759	(80,338)	1,444,356	(83,311)
Current amount				1,361,010	(27,304)	776,088	(56,232)
Long-term amount				1,505,749	(53,034)	668,268	(27,079)

(In thousands of reais)

8. Credit operations (Continued)

a) Credit operations (Continued)

ii) By maturity

Type of credit	Consolidated				
		Due			
	Overdue	Up to 6 months	6 to 12 months	After 12 Months	Total
	2010				
Loans	**2,395**	**615,661**	**1,147,207**	**811,179**	**2,576,442**
Financing	**-**	**124,956**	**212,365**	**665,331**	**1,002,652**
Onlending FINAME/BNDES	**-**	**26,802**	**29,286**	**44,447**	**100,535**
Securities financing	**-**	**102,713**	**-**	**-**	**102,713**
	2,395	**870,132**	**1,388,858**	**1,520,957**	**3,782,342**
	2009				
Loans	23,923	418,377	238,012	496,766	1,177,078
Financing	2,579	11,554	25,286	179,547	218,966
Onlending FINAME/BNDES	-	-	325	-	325
Securities financing	-	62,527	-	-	62,527
	26,502	492,458	263,623	676,313	1,458,896

Type of credit	Banco BTG Pactual S.A.				
		Due			
	Overdue	Up to 6 months	6 to 12 months	After 12 Months	Total
	2010				
Loans	**2,395**	**615,661**	**246,832**	**795,971**	**1,660,859**
Financing	**-**	**124,956**	**212,365**	**665,331**	**1,002,652**
Onlending FINAME/BNDES	**-**	**26,802**	**29,286**	**44,447**	**100,535**
Securities financing	**-**	**102,713**	**-**	**-**	**102,713**
	2,395	**870,132**	**488,483**	**1,505,749**	**2,866,759**
	2009				
Loans	23,923	412,225	237,669	488,721	1,162,538
Financing	2,579	11,554	25,286	179,547	218,966
Onlending FINAME/BNDES	-	-	325	-	325
Securities financing	-	62,527	-	-	62,527
	26,502	486,306	263,280	668,268	1,444,356

(In thousands of reais)

8. Credit operations (Continued)

b) Other receivables - credit-extension-like receivables

i) By type of client, business activity and risk level

				Consolidated and Banco BTG Pactual S.A.			
				2010		2009	
Type of credit	Client	Business activity	Risk level	Balance	Allowance	Balance	Allowance
Securities and credits receivable **(i)**	Corporate	Manufacture	AA	**13,630**	**-**	35,040	-
	Corporate	Commerce	AA	**34,029**	**-**	-	-
	Corporate	Services	AA	**528,178**	**-**	3,598	-
	Corporate	Manufacture	A	**1,197**	**(6)**	4,749	(24)
	Corporate	Manufacture	B	**1,274**	**(13)**	-	-
	Corporate	Services	B	**45,080**	**(451)**	833	(8)
	Individual	-	B	**326**	**(3)**	5,488	(55)
	Corporate	Services	C	**-**	**-**	25,260	(758)
	Corporate	Services	D	**159**	**(16)**	-	-
	Corporate	Manufacture	F	**-**	**-**	1,904	(952)
				623,873	**(489)**	76,872	(1,797)
Current amount				**615,983**	**(426)**	74,693	(1,735)
Long-term amount				**7,890**	**(63)**	2,179	(62)

(i) Refer to the acquisition of credit rights.

ii) By maturity

	Consolidated and Banco BTG Pactual S.A.				
		Due			
Type of credit	Overdue	Up to 6 months	6 to 12 months	After 12 months	Total
			2010		
Securities and credits receivable	**159**	**613,881**	**1,943**	**7,890**	**623,873**
			2009		
Securities and credits receivable	11	67,701	6,980	2,180	76,872

(In thousands of reais)

8. Credit operations (Continued)

c) Advances in foreign exchange contracts

i) By type of client, business activity and risk level

Type of credit	Client	Business activity	Risk level	Consolidated and Banco BTG Pactual S.A. 2010 Balance	Allowance
Advances in foreign exchange contracts (i)	Corporate	Manufacture	A	**14,675**	**(73)**
	Corporate	Services	A	**35,363**	**(177)**
	Corporate	Manufacture	B	**9,037**	**(90)**
	Corporate	Commerce	B	**8,246**	**(83)**
				67,321	**(423)**

(i) Classified in the exchange portfolio account (Note 9.a)

ii) By maturity

Type of credit	Consolidated and Banco BTG Pactual S.A – Due – Up to 6 months	6 to 12 months	Total
		2010	
Advances in foreign exchange contracts	**58,284**	**9,037**	**67,873**

d) Allowance

Changes in allowance for losses on credit operations and other receivables from credit-like operations over the periods were as follows:

	Consolidated 2010	Consolidated 2009	Banco BTG Pactual S.A. 2010	Banco BTG Pactual S.A. 2009
Opening balances	**(89,487)**	(46,685)	**(85,108)**	(46,685)
Allowance reversal / (set up)	**(23,413)**	(49,461)	**(23,059)**	(45,082)
Credit written off as losses	**31,320**	6,659	**26,917**	6,659
Closing balances	**(81,580)**	(89,487)	**(81,250)**	(85,108)
Breaking down of closing balances				
Allowance for loan losses	**(80,668)**	(87,690)	**(80,338)**	(83,311)
Allowance for losses on other receivables	**(489)**	(1,797)	**(489)**	(1,797)
Allowance for advances in foreign exchange contracts	**(423)**	-	**(423)**	-
	(81,580)	(89,487)	**(81,250)**	(85,108)
Current amount	**(28,303)**	(57,967)	**(28,153)**	(57,967)
Long-term amount	**(53,277)**	(31,520)	**(53,097)**	(27,141)

(In thousands of reais)

8. Credit operations (Continued)

d) Allowance (Continued)

The movement in the allowance for other credit-extension-like during the years was as follows:

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Opening balances	**(49,955)**	(16,694)	**(49,955)**	(16,642)
Allowance reversal / (set up)	**16,383**	(43,168)	**16,383**	(43,220)
Credit written off as losses	**3,319**	9,907	**3,319**	9,907
Closing balances	**(30,253)**	(49,955)	**(30,253)**	(49,955)
Breaking down of closing balances				
Allowance for losses on other receivables	**(30,253)**	(49,955)	**(30,253)**	(49,955)
	(30,253)	(49,955)	**(30,253)**	(49,955)

Allowances for other credit-extension-like refer to acquisition of credit rights, as stated in item b of this Note, whereas allowances for other non-credit-extension-like basically refer to receivables from securities trading and brokerage, as shown on Note 10(b).

e) Renegotiation/recovery of written-off credits

The amount of R$ 31,031 under the Bank's credit portfolio refers to credits renegotiated in the year ended December 31, 2010 (R$ 87,537 in 2009). In 2010, the amount of R$ 8,594, of credits written off as losses were recovered (in 2009, no credits written off as losses were recovered).

(In thousands of reais)

9. Other credits/other liabilities

a) Foreign exchange portfolio

	Consolidated			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased/sold	**680,732**	**598,180**	371,306	388,727
Rights on foreign exchange sales	**598,209**	**-**	393,392	-
(-) Advances in foreign exchange contracts	**-**	**(67,321)**	-	-
(-) Advances in foreign currency received	**-**	**-**	(383)	-
(-) Advances in local currency received	**(5,934)**	**-**	(37,783)	-
Liabilities for foreign exchange purchases	**-**	**685,420**	-	375,670
	1,273,007	**1,216,279**	726,532	764,397
Current amount	**1,216,971**	**1,162,107**	706,554	744,270
Long-term amount	**56,036**	**54,172**	19,978	20,127

	Banco BTG Pactual S.A.			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased / sold	**2,217,432**	**2,125,982**	371,306	388,727
Rights on foreign exchange sales	**2,148,821**	**-**	393,392	-
(-) Advances in foreign exchange contracts	**-**	**(67,321)**	-	-
(-) Advances in foreign currency received	**-**	**-**	(383)	-
(-) Advances in local currency received	**(5,934)**	**-**	(37,783)	-
Liabilities for foreign exchange purchases	**-**	**2,236,034**	-	375,670
	4,360,319	**4,294,695**	726,532	764,397
Current amount	**4,304,283**	**4,240,523**	706,554	744,270
Long-term amount	**56,036**	**54,172**	19,978	20,127

Guarantees given in connection with foreign exchange transactions carried out through BM&FBOVESPA S.A - Stock Exchange, Commodities and Future are represented by federal government securities in the amount of R$ 3,123 in the consolidated and in the Bank (R$ 35,015 in the consolidated and in the Bank in 2009).

(In thousands of reais)

9. Other credits/other liabilities (Continued)

b) Securities trading and brokerage

	Consolidated			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	**8,547**	**163,957**	5,891	74,814
Debtors/creditors – pending settlement (i)	**1,757,948**	**714,362**	1,007,692	337,132
Escrow deposits – Margin	**-**	**-**	8,949	-
Credits for stock loans	**-**	**1,173,165**	-	374,830
Receivables from share loans	**223,008**	**-**	-	-
Other receivables/other payables for securities trading and brokerage (ii)	**113**	**7,491,163**	95	446,487
	1,989,616	**9,542,647**	1,022,627	1,233,263
Current amounts	**1,989,503**	**9,528,952**	1,022,565	1,231,223
Long-term amounts	**113**	**13,695**	62	2,040

	Banco BTG Pactual S.A.			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	**8,163**	**164,385**	3,771	109,203
Debtors/creditors – pending settlement **(i)**	**824,779**	**178,937**	259,864	174,898
Escrow deposits – Margin	**-**	**-**	8,949	-
Credits for stock loans	**-**	**130,124**	-	346,166
Other receivables/other payables for securities trading and brokerage **(ii)**	**100**	**308,073**	65	42,068
	833,042	**781,519**	272,649	672,335
Current amounts	**832,942**	**767,824**	272,587	670,295
Long-term amounts	**100**	**13,695**	62	2,040

(i) Basically represented by amounts pending settlement within terms established in regulation, relating to transactions involving the purchase and sale of securities and financial asset agreements on BM&FBOVESPA, and abroad through first-tier stockbrokers, on the Bank's behalf or on behalf of third parties.

(ii) In assets, represented by swap intermediation transactions, and in liabilities, refers basically to sale of shares, to be settled within the terms established in regulation.

(In thousands of reais)

10. Other credits

a) Income receivable

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Dividends and bonuses	**4,469**	1,791	**1,950**	65,677
Receivables from services rendered	**92,144**	6,258	**28,199**	6,209
Management and performance fees for investment funds and portfolios	**111,147**	189,754	**23,358**	58,802
Commissions on guarantees	**7,646**	-	**7,438**	-
Others	**8,219**	460	**7,748**	303
	223,625	198,263	**68,693**	130,991

b) Sundry

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Deferred tax assets	**872,252**	1,144,723	**831,028**	1,115,880
Legal deposits:				
Social security financing tax (COFINS) - suspended collection	**370,777**	256,798	**351,675**	252,191
Social contribution tax (CSL) - suspended collection	**10,818**	10,444	**9,967**	9,610
Social integration program tax (PIS) - suspended collection	**9,519**	9,130	**8,356**	7,966
Income tax (IRPJ) - suspended collection	**8,402**	8,020	**6,650**	6,371
Fine by BACEN	**15,454**	14,831	**15,454**	14,831
Service tax (ISS)	**5,579**	5,579	**3,913**	3,913
Social security contribution tax (INSS)	**14,098**	13,977	**14,098**	13,977
Others	**5,695**	1,946	**1,092**	865
Recoverable taxes	**172,366**	51,691	**145,795**	37,810
Tax incentive options	**1,317**	1,317	**1,317**	1,317
Credits receivable (i)				
Credit extension like receivables(i)	**623,873**	76,872	**623,873**	76,872
Non - Credit extension like	**139,525**	16,442	**-**	-
Receivables from securities trading and brokerage	**50,646**	83,986	**49,526**	82,818
Others	**86,094**	15,606	**73,672**	21,282
	2,386,415	1,711,362	**2,136,416**	1,645,703
Current amount	**854,095**	435,911	**756,637**	436,197
Long-term amount	**1,532,320**	1,275,451	**1,379,779**	1,209,506

(I) Relate to acquisition of credit rights as described in Note 8(b).

(In thousands of reais)

11. Investments in subsidiaries - bank

	Subsidiaries					
	Capital		Shareholders' equity		Net income (loss)	
	2010	2009	2010	2009	2010	2009
Brazilian companies						
BTG Pactual Asset Management S.A. DTVM	**3,878**	3,474	**161,875**	70,832	**91,043**	218,907
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	**168,890**	161,870	**252,876**	205,231	**47,645**	15,276
BTG Pactual Serviços Financeiros S.A. DTVM	**32,062**	31,670	**58,479**	43,761	**14,717**	19,690
BTG Pactual Corretora de Mercadorias Ltda.	**7,020**	2,500	**65,185**	56,336	**8,849**	7,035
BTG Pactual Corporate Services Ltda.	**4,128**	1	**32,562**	4,511	**23,923**	326
BTG Pactual Agente Comercializador de Energia Ltda.	**161,710**	5	**169,512**	98	**7,709**	92
BTG Pactual Securitizadora S.A.	**80,100**	100	**80,792**	100	**692**	-
BTG Pactual Holding Internacional S.A. (i)	**1**	-	**1**	-	**-**	-
BTGP Recovery Holdings S.A. (ii)	**1**	-	**1**	-	**-**	-
Foreign companies						
BTG Pactual Banking Limited	**284,566**	297,381	**648,549**	454,252	**213,873**	81,412

	Parent Company					
	Equity interest		Investment book value		Equity pickup (iii)	
	2010	2009	2010	2009	2010	2009
Brazilian companies						
BTG Pactual Asset Management S.A. DTVM	**99.99**	99.99	**161,874**	70,832	**91,043**	218,907
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	**99.99**	99.99	**252,876**	205,231	**47,645**	15,275
BTG Pactual Serviços Financeiros S.A. DTVM	**99.99**	99.99	**58,479**	43,761	**14,717**	19,690
BTG Pactual Corretora de Mercadorias Ltda.	**99.99**	99.99	**65,185**	56,336	**8,849**	7,035
BTG Pactual Corporate Services Ltda.	**0.01**	99.40	**4**	4,484	**(4,480)**	325
BTG Pactual Agente Comercializador de Energia Ltda.	**99.96**	99.96	**169,512**	98	**7,709**	92
BTG Pactual Securitizadora S.A.	**99.99**	99.99	**80,792**	100	**692**	-
BTG Pactual Holding Internacional S.A. (i)	**99.99**	-	**1**	-	**-**	-
BTGP Recovery Holdings S.A. (ii)	**99.99**	-	**1**	-	**-**	-
Goodwill on investment in BTG Pactual Serviços Financeiros S.A. DTVM (i)	**-**	-	**5,778**	5,778	**-**	(925)
			794,502	386,620	**166,175**	260,399
Foreign companies						
BTG Pactual Banking Limited	**100.00**	100.00	**648,532**	454,234	**194,298**	(46,224)
			1,443,034	840,854	**360,473**	214,175

(i) Investment beginning September 10, 2010.

(ii) Investment beginning December 2, 2010.

(iii) Any differences between net income in subsidiaries and equity pickup adjustment consist of restatement of equity security holdings (when regarding subsidiaries in Brazil) and exchange fluctuation of investments abroad (when regarding subsidiaries abroad).

(In thousands of reais)

12. Open market funding

Open market funding is backed by the following securities:

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Own portfolio				
Financial Treasury Bills	**114,289**	2,050	**114,289**	2,050
National Treasury Bills	**962,821**	11,479	**968,889**	11,479
National Treasury Notes	**5,369,948**	327,446	**5,369,948**	327,446
Debentures	**325,554**	-	**325,554**	-
Securities issued by foreign governments	**15,981,003**	-	**-**	-
Company securities	**1,429,034**	149,952	**-**	-
	24,182,649	490,927	**6,778,680**	340,975
Third-party portfolio				
Financial Treasury Bills	**1,514,466**	364,906	**1,514,466**	364,906
National Treasury Bills	**715,313**	253,025	**715,313**	253,025
National Treasury Notes	**5,152,323**	6,362,159	**5,152,323**	6,362,159
Corporate bonds	**10,878**	4,121	**-**	-
	7,392,980	6,984,211	**7,382,102**	6,980,090
Freely-traded portfolio				
Financial Treasury Bills	**3,341,150**	-	**3,341,150**	-
National Treasury Notes	**7,047,614**	1,581,478	**7,047,614**	1,581,478
	10,388,764	1,581,478	**10,388,764**	1,581,478
	41,964,393	9,056,616	**24,549,546**	8,902,543

13. Foreign borrowings

This balance is basically represented by a revolving credit facility amounting to US$ 273,913 thousand (US$ 22,973 thousand in 2009), maturing on December 31, 2011 (December 31, 2010, in 2009). The balance on the consolidated financials includes loans from banks and brokers abroad.

(In thousands of reais)

14. Other liabilities

a) Social and statutory

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Employees' profit sharing	**230,601**	227,206	**175,660**	159,289
Bonuses payable	**41,443**	-	**29,448**	-
	272,044	227,206	**205,108**	159,289
Current amount	**230,601**	227,206	**175,660**	159,289
Long-term amount	**41,443**	-	**29,448**	-

b) Tax and social security

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Taxes and contributions payable	**42,596**	39,910	**26,337**	14,685
Taxes and mandatory contributions payable	**79,399**	34,228	**-**	-
Deferred income and social contribution taxes (i)	**9,744**	50,208	**8,532**	48,547
Taxes with suspended collection:				
Social integration program tax (PIS) (ii) (iii)	**33,853**	32,007	**27,399**	26,642
Social security financing tax (COFINS) (iii) (iv)	**368,752**	276,814	**353,058**	272,179
Social contribution tax (CSL)(ii) (iii)	**7,560**	7,351	**6,704**	6,499
Income tax (IRPJ) (iii)	**1,534**	1,484	**1,534**	1,484
Others (iii)	**6,736**	10,371	**5,748**	9,387
	550,174	452,373	**429,312**	379,423
Current amount	**107,363**	343,312	**15,455**	286,864
Long-term amount	**442,811**	109,061	**413,857**	92,559

(i) In 2010 it consists basically of income tax and social contribution on negative goodwill. In 2009 it also includes income tax and social contribution on net profit, calculated on the positive valuation at market value of marketable securities and derivative financial instruments and on the unrealized positive results of the derivative financial instruments, pursuant to Law Nº 11051/04.

(ii) It consists basically of: a) CSL - question of the rate applicable in the years 97/98 based on the tax parity principle; and b) PIS - question in court of constitutional amendments 01/94,10/96 and 17/97, as regards the principle of precedence and non-retroactivity of such standards.

(iii) Judicial deposits were made for these contingencies, which are presented under "Other receivables – sundry" for R$ 374,823 (R$ 260,584 in 2009) in the consolidated and R$ 352,956 (R$253,393 in 2009) in the Bank.

(iv) The constitutionality of article 3 of Law No. 9718/98 is under discussion. The Bank and its subsidiaries have been granted a preliminary injunction to pay COFINS only on service revenues.

(In thousands of reais)

14. Other liabilities (Continued)

c) Sundry

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Provision for accounts payable	**168,242**	43,606	**40,290**	15,193
Payables for acquisition of assets and rights	**83,074**	224	**-**	-
Provision for contingent liabilities	**27,579**	20,693	**25,568**	19,378
Payables to related parties	**-**	-	**9,594**	-
Consolidated fund shareholders	**7,733**	7,273	**-**	-
Others	**3,496**	14,591	**1,067**	14,173
	290,124	86,387	**76,519**	48,744
Current amount	**179,207**	65,206	**50,951**	29,366
Long-term amount	**110,917**	21,181	**25,568**	19,378

15. Shareholders' equity - bank

a) Capital

The Special General Meeting held on April 30, 2010 and approved by the Central Bank of Brazil on December 8, 2010 approved the capital increase by R$ 7,079 through realization of capital reserve without issuance of new shares.

The special general meetings were held on December 9, 2010 and approved by the Central Bank of Brazil on December 24, 2010 resolved as follows:

(i) Creation of non-voting class A and class B preferred shares, ensuring, in case of the Bank's dissolution, capital reimbursement priority without premium. Class B shares will be convertible into class A common or preferred shares, in accordance with the conditions set forth in the bank's articles of incorporation.

(ii) Split of all 1,253,583,889 common shares issued by the Bank, so that capital is now divided into 1,952,331,606 common registered shares with no par value.

(iii) Conversion of 901,394,404 common shares to 901,394,404 class B preferred shares.

(iv) Capital increase by R$ 2,409,264 by issuing 447,668,394 new shares, comprising 149,222,798 common shares and 298,445,596 class A preferred shares.

15. Shareholders' equity - bank (Continued)

a) Capital (Continued)

Fully subscribed and paid up capital comprises 2,400,000,000 (1,253,583,889 in 2009) shares, of which 1,200,160,000 (1,253,583,889 in 2009) common shares, 298,445,596 class A preferred shares and 901,394,404 class B preferred registered shares with no par value.

b) Legal reserve

This reserve is established at the rate of 5% of net income, before any other appropriation, and shall not exceed 20% of capital.

c) Statutory reserve

In accordance with the Bank's articles of incorporation, this reserve aims at preserving the Bank's working capital and is to be established at an amount not exceeding total capital.

d) Unrealized income reserve

This reserve was established considering undistributed dividends obtained in investments in foreign subsidiaries.

e) Profit distribution

Shareholders are entitled to annual dividends of at least 25% of net income, adjusted in accordance with article 202 of Law No. 6404/76.

The special general meeting held on September 18, 2009 decided on the dividends distribution for R$ 1,250,000.

The board meetings held on March 18, April 26 and September 20, 2010 decided on prior years' dividends distribution for R$ 133,061, R$ 13,000 and R$227,576, respectively. On December 29, 2010 the bank management decided on current year dividends distribution for R$ 473,000. On September 20, 2010 the bank's management decided to pay interest on own capital for R$ 15,440, which generated a tax benefit from deductibility of expense for R$ 6,176.

(In thousands of reais)

16. Derivative financial instruments

The Bank and its subsidiaries actively engage in risk intermediation activities involving derivative financial instruments, providing the necessary hedge for their own needs and for that of their clients, with a view to reducing their exposure to market, currency and interest rate risks. Certain derivative financial instruments may be associated with transactions involving marketable securities or rights and obligations. The risks underlying these transactions are managed by means of control policies, the establishment of strategies, definition of limits, among other monitoring techniques.

The transactions carried out in Brazil are traded, registered or held in custody by BM&FBOVESPA and CETIP S.A. - OTC Clearing House (CETIP S.A.); transactions carried out abroad are traded and registered with first-tier brokers.

Guarantees given are as follows:

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Federal government securities	**789,806**	70,090	**624,043**	16,813
Stock	**957,959**	485,087	**613,751**	485,087
Guarantees	**-**	110,000	**-**	110,000
Bank Deposit Certificates	**-**	20,704	**-**	20,704
	1,747,765	685,881	**1,237,794**	632,604

The notional values of transactions involving financial instruments are recorded in memorandum accounts and relevant adjustments/premiums are recorded in balance sheet accounts.

Commitments undertaken as a result of transactions involving derivatives, maturing up to August 24, 2025 (September 11, 2049 in 2009), as shown below, take into consideration the provisions of BACEN Circular No. 3389/08, which determines the exclusion of contracts in foreign currency, gold and other assets subject to foreign exchange exposures maturing on the first workday following the calculation of the foreign exchange exposure.

(In thousands of reais)

16. Derivative financial instruments (Continued)

a) By index

	Consolidated			
	2010		2009	
	Long Position	Short position	Long Position	Short position
Futures contracts				
Foreign currency	**2,229,036**	**5,746,150**	447,461	1,319,851
Interest rate	**31,895,679**	**6,787,434**	8,356,186	1,631,552
Commodity	**30,306,252**	**37,522,374**	-	-
Indexes	**124,795**	**64,651**	6,901	54,411
	64,555,762	**50,120,609**	8,810,548	3,005,814
Swap				
Foreign currency	**1,952,511**	**3,870,148**	369,645	764,429
Interest rate	**4,615,151**	**1,945,339**	1,086,344	585,806
Indexes	**21,473,367**	**22,042,606**	6,474,788	5,368,373
	28,041,029	**27,858,093**	7,930,777	6,718,608
Non-deliverable forward - NDF				
Foreign currency	**12,453,333**	**12,009,298**	1,423,727	465,942
Interest rate	**638,624**	**1,149,227**	449,538	1,352,344
	13,091,957	**13,158,525**	1,873,265	1,818,286
Deliverable forward - DF				
Foreign currency	**3,760,816**	**3,773,716**	150,768	150,577
Forward contracts				
Foreign currency	**-**	**-**	-	55,488
Interest rate	**-**	**-**	-	85,078
	-	**-**	-	140,566
Options contracts				
Financial assets				
Call option	**27,112,804**	**15,955,349**	3,211,781	1,883,238
Put option	**67,508,589**	**102,098,493**	6,924,738	7,810,776
	94,621,393	**118,053,842**	10,136,519	9,694,014
Stock				
Call option	**1,230,335**	**1,049,762**	355,435	644,968
Put option	**89,414**	**992,403**	207,619	22,062
	1,319,749	**2,042,165**	563,054	667,030
Fixed income				
Call option	**85,749**	**101,195**	-	-
	96,026,891	**120,197,202**	10,699,573	10,361,044

(In thousands of reais)

16. Derivative financial instruments (Continued)

a) By index (Continued)

	Banco BTG Pactual S.A.			
	2010		2009	
	Long Position	Short position	Long Position	Short position
Futures contracts				
Foreign currency	**1,882,783**	**3,353,395**	422,080	1,319,851
Interest rate	**31,895,679**	**6,787,434**	7,746,406	1,210,166
Indexes	**30,282,414**	**37,073,996**	-	9,204
	64,060,876	**47,214,825**	8,168,486	2,539,221
Swap transactions				
Foreign currency	**896,272**	**1,671,507**	369,645	764,429
Interest rate	**2,073,507**	**3,991,679**	983,674	459,488
Indexes	**4,464,172**	**1,716,709**	209,606	349,541
	7,433,951	**7,379,895**	1,562,925	1,573,458
Non-deliverable forward - NDF				
Foreign currency	**1,038,284**	**602,954**	1,299,317	342,574
Interest rate	**638,624**	**1,149,227**	449,538	1,352,344
	1,676,908	**1,752,181**	1,748,855	1,694,918
Forward contracts				
Foreign currency	**-**	**-**	-	55,488
Interest rate	**-**	**-**	-	85,078
	-	**-**	-	140,566
Options contracts				
Financial assets				
Call option	**27,112,804**	**15,954,098**	3,211,781	1,883,238
Put option	**67,508,589**	**102,098,493**	6,924,738	7,810,776
	94,621,393	**118,052,591**	10,136,519	9,694,014
Stock				
Call option	**424,428**	**234,301**	354,543	486,305
Put option	**87,880**	**217,160**	67,853	21,290
	512,308	**451,461**	422,396	507,595
Fixed income				
Call option	**85,749**	**101,195**	-	-
	85,749	**101,195**	-	-
	95,219,450	**118,605,247**	10,558,915	10,201,609

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Notes to financial statements (Continued)
December 31, 2010 and 2009
(In thousands of reais)

16. Derivative financial instruments--Continued

b) By maturity

	Consolidated				
	2010				2009
	Up to 6 months	6 to 12 months	After 12 months	Total	Total
Futures contracts					
Long position	**46,984,690**	**11,716,020**	**5,855,052**	**64,555,762**	8,810,548
Short position	**38,078,523**	**5,775,256**	**6,266,830**	**50,120,609**	3,005,814
Swap transactions					
Notional value	**10,209,423**	**4,554,291**	**12,753,876**	**27,517,590**	7,730,147
Short position	**10,236,779**	**4,601,145**	**13,203,105**	**28,041,029**	7,930,777
Long position	**10,235,317**	**4,592,558**	**13,030,218**	**27,858,093**	6,718,608
Non-deliverable forward - NDF					
Notional value	**14,086,741**	**2,037,951**	**677,420**	**16,802,112**	14,033,862
Short position	**10,941,767**	**1,542,643**	**607,547**	**13,091,957**	1,873,265
Long position	**10,944,610**	**1,578,629**	**635,287**	**13,158,526**	1,818,286
Deliverable forward - DF					
Notional value	**3,215,355**	**473,853**	**55,523**	**3,744,731**	262,209
Short position	**3,234,092**	**471,740**	**54,984**	**3,760,816**	150,768
Long position	**3,235,429**	**482,915**	**55,372**	**3,773,716**	150,577
Forward contracts					
Long position	**-**	**-**	**-**	**-**	140,566
Options contracts					
Financial assets					
Long position	**93,141,169**	**1,425,643**	**54,581**	**94,621,393**	10,136,519
Short position	**116,060,665**	**1,910,894**	**82,283**	**118,053,842**	9,694,014
Stock					
Long position	**790,274**	**408,148**	**121,327**	**1,319,749**	563,054
Short position	**1,002,732**	**792,684**	**246,749**	**2,042,165**	667,030
Fixed income					
Long position	**85,749**	**-**	**-**	**85,749**	-
Short position	**101,195**	**-**	**-**	**101,195**	-

(In thousands of reais)

16. Derivative financial instruments (Continued)

b) By maturity (Continued)

	Banco BTG Pactual S.A.				
	2010				2009
	Up to 6 months	6 to 12 months	After 12 months	Total	Total
Futures contracts					
Long position	**46,848,352**	**11,680,815**	**5,531,709**	**64,060,876**	8,168,486
Short position	**37,937,574**	**5,760,322**	**3,516,929**	**47,214,825**	2,539,221
Swap transactions					
Notional value	**2,855,297**	**1,232,996**	**2,902,562**	**6,990,855**	1,463,474
Short position	**2,870,335**	**1,275,533**	**3,288,083**	**7,433,951**	1,562,925
Long position	**2,929,503**	**1,270,530**	**3,179,862**	**7,379,895**	1,573,458
Non-deliverable forward - NDF					
Notional value	**1,145,781**	**474,289**	**133,883**	**1,753,953**	1,771,703
Short position	**1,109,016**	**442,172**	**125,720**	**1,676,908**	1,748,855
Long position	**1,141,569**	**481,320**	**129,292**	**1,752,181**	1,694,918
Forward contracts					
Long position	**-**	**-**	**-**	**-**	140,566
Options contracts					
Financial assets					
Long position	**93,141,169**	**1,425,643**	**54,581**	**94,621,393**	10,136,519
Short position	**116,059,414**	**1,910,894**	**82,283**	**118,052,591**	9,694,014
Stock					
Long position	**507,845**	**4,463**	**-**	**512,308**	422,396
Short position	**451,461**	**-**	**-**	**451,461**	507,595
Fixed income					
Long position	**85,749**	**-**	**-**	**85,749**	-
Short position	**101,195**	**-**	**-**	**101,195**	-

17. Risk management

a) Market risk

The various scenarios envisaged for market behavior are properly simulated by means of the Value-at-Risk calculation model and especially via stress tests, which allows the identification of the main risk components to be controlled. The computer systems that support the decision-making process enables the performance of the investment process as a whole - including the selection, analysis, monitoring, optimization and simulation. The Value-at-Risk is calculated using historical simulation methodologies and, where necessary, the Monte Carlo simulation. The stress tests are conducted using three different models: historical stress test, worst case scenario and hypothetical stress test.

b) Credit risk

All the counterparties of the Bank and its subsidiaries are subjected to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Credit Committee regularly establishes and reviews the credit limits for the counterparties of the Bank and its subsidiaries. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

c) Liquidity risk

The Bank and its subsidiaries manage the liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from first-tier counterparties at extremely competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

17. Risk management (Continued)

d) Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an Operating Risk Management Policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a tradition in operational risk management, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to complying with the requirements of regulatory agencies, to rapidly adjusting to changes and to estimate future trends, among which the New Basel Capital Accord is to be highlighted.

18. Related parties

The BTG Pactual Group companies invest their cash and cash equivalents mainly in funding products offered by Banco BTG Pactual S.A.

(In thousands of reais)

18. Related parties (Continued)

The balance of transactions involving the related parties, which are carried out at arm's length, is reflected in the following accounts:

	2010			
	Relationship	**Maturity**	**Assets/ liabilities**	**Revenue/ (expenses)**
Assets				
Other credits				
Foreign exchange				
BTG Pactual Banking Limited	Subsidiary	03/01/2012	**8,896**	**28,231**
Income receivable				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	**4**	**25**
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	**4**	**24**
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	No maturity	**4**	**24**
BTG Global Asset Management Limited	Related	No maturity	**15,398**	**52,685**
Securities trading and brokerage				
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	01/05/2011	**33**	**-**
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	01/05/2011	**98,900**	**-**
Sundry				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	**420**	**-**
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	**5,403**	**-**
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	**8**	**-**
BTG Pactual Gestora de Recursos Ltda.	Subsidiary	No maturity	**1**	**-**
BTG Pactual Empresa Operadora. do Mercado Energético Ltda. - Coomex	Subsidiary	No maturity	**2**	**-**
			129,073	**80,989**

	2009			
	Relationship	**Maturity**	**Assets/ liabilities**	**Revenue/ (expenses)**
Assets				
Other credits				
Income receivable				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	22,138	25
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	6,094	24
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	26,431	-
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	7,348	-
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	No maturity	2,391	24
Securities trading and brokerage				
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	01/04/2010	3,854	-
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	01/04/2010	460	-
Sundry				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	3,177	-
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	8	-
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	4	-
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	12,921	-
			84,826	73

(In thousands of reais)

18. Related parties (Continued)

	2010			
	Relationship	**Maturity**	**Assets/ liabilities**	**Revenue/ (expenses)**
Liabilities				
Deposits				
Demand deposits				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	**102**	**-**
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	**912**	**-**
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	**101**	**-**
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	**99**	**-**
BTG Pactual Corporate Services Ltda.	Subsidiary	No maturity	**34**	**-**
BTG Pactual Securitizadora S.A.	Subsidiary	No maturity	**100**	**-**
BTG Pactual Agente Comercializador de Energia Ltda.	Subsidiary	No maturity	**50**	**-**
BTG Pactual Gestora de Recursos Ltda.	Subsidiary	No maturity	**33**	**-**
BTG Pactual WM Gestão de Recursos Ltda.	Subsidiary	No maturity	**49**	**-**
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	No maturity	**34**	**-**
BTG Pactual Holding Internacional S.A.	Subsidiary	No maturity	**1**	**-**
BTG Pactual Serviços Energéticos Ltda. - Coomex	Subsidiary	No maturity	**425**	**-**
BTG Pactual Stigma Participações S.A.	Related	No maturity	**89**	**-**
BTG Alpha Participações Ltda.	Related	No maturity	**44**	**-**
BTG Alpha Investments LLC	Related	No maturity	**5**	**-**
Partners and key personal	-	No maturity	**17**	**-**
Interbank deposits - related parties				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	12/02/2011	**118,761**	**(10,400)**
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	12/23/2011	**69,274**	**(5,554)**
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	12/23/2011	**160,217**	**(12,655)**
Time deposits				
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	12/09/2011	**64,694**	**(5,625)**
BTG Pactual Corporate Services Ltda.	Subsidiary	10/27/2011	**36,087**	**(1,207)**
BTG Pactual WM Gestão de Recursos Ltda.	Subsidiary	12/22/2011	**5,792**	**(337)**
BTG Pactual Empresa Operadora do Mercado Energético Ltda. - Coomex	Subsidiary	11/11/2011	**14,712**	**(214)**
BTG Pactual Agente Comercializador de Energia Ltda.	Subsidiary	11/04/2011	**73**	**(4)**
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	12/02/2011	**6,025**	**(320)**
BTG Pactual Gestora de Recursos Ltda.	Subsidiary	12/23/2011	**2,334**	**(706)**
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	-	**-**	**(6)**
BTG Pactual Securitizadora S.A.	Subsidiary	12/09/2011	**5,172**	**(44)**
BTG Pactual Alpha Participações Ltda.	Related	12/23/2011	**3,371**	**(342)**
Borrowings				
Borrowings abroad				
BTG Pactual Banking Limited	Subsidiary	12/31/2011	**456,176**	**(1,295)**
Other payables				
Securities trading and brokerage				
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	**859**	**-**
Sundry				
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	**602**	**(4,510)**
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	**5**	**-**
BTG Pactual US Capital Corp.	Related	No maturity	**4,154**	**(10,590)**
			950,403	**(53,809)**

(In thousands of reais)

18. Related parties (Continued)

	2009			
	Relationship	**Maturity**	**Assets/ liabilities**	**Revenue/ (expenses)**
Liabilities				
Deposits				
Demand deposits				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	No maturity	102	-
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	No maturity	432	-
BTG Pactual Corretora deTítulos e Valores Mobiliários S.A.	Subsidiary	No maturity	106	-
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	122	-
BTG Pactual Corporate Service Ltda.	Subsidiary	No maturity	27	-
BTG Pactual Securitizadora S.A.	Subsidiary	No maturity	1	-
BTG Pactual WM Gestão de Recursos Ltda.	Subsidiary	No maturity	50	-
BTG Pactual Agente Comercializador de Energia Ltda.	Subsidiary	No maturity	45	-
Interbank deposits - related parties				
BTG Pactual Asset Management S.A. DTVM	Subsidiary	01/05/2010	52,686	(21,035)
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	12/22/2010	48,104	(12,768)
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	01/05/2010	175,780	(45,918)
Time deposits				
BTG Pactual Serviços Financeiros S.A. DTVM	Subsidiary	-	-	(1)
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	12/08/2010	63,269	(14,245)
BTG Pactual Corporate Service Ltda.	Subsidiary	10/28/2010	3,939	(396)
BTG Pactual WM Gestão de Recursos Ltda.	Subsidiary	12/10/2010	2,026	(95)
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	12/10/2010	1,958	(7,983)
BTG Pactual Agente Comercializador de Energia Ltda.	Subsidiary	06/18/2010	27	(2)
BTG Pactual Gestora de Recursos Ltda.	Subsidiary	11/26/2010	770	(6)
Other deposits				
BTG Pactual Corporate Service Ltda.	Subsidiary	No maturity	400	-
BTG Pactual WM Gestão de Recursos Ltda.	Subsidiary	No maturity	62	-
BTG Pactual Gestora de Investimentos Alternativos S.A.	Subsidiary	No maturity	47	-
BTG Pactual Gestora de Recursos Ltda.	Subsidiary	No maturity	31	-
Borrowings				
Borrowings abroad				
BTG Pactual Banking Limited	Subsidiary	01/05/2010	13	(338)
Other payables				
Securities trading and brokerage				
BTG Pactual Corretora de Mercadorias Ltda.	Subsidiary	No maturity	2,120	-
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Subsidiary	No maturity	34,613	-
			386,730	(102,787)

The total compensation paid to key personal in the period was in the amount of R$ 4,361 (R$ 30,690 in 2009) which is considered a short-term benefit.

(In thousands of reais)

19. Income from services rendered

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Management fees and performance Bonuses for investment funds and Portfolio	**343,413**	321,214	**124,525**	109,588
Stock exchange brokerage	**107,673**	93,587	**524**	1,700
Technical advisory services	**265,706**	180,834	**229,727**	179,147
Commission on the placement of securities	**64,257**	68,204	**58,851**	64,285
Other services	**21,965**	7,402	**21,440**	7,463
	803,014	671,241	**435,067**	362,183

20. Other operating income

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Revenues from portfolio investment management	**-**	52,508	**-**	52,508
Reversal of allowances	**98,964**	4,458	**94,828**	4,021
Reversal of allowances - employees' bonuses	**-**	606,211	**-**	314,875
Monetary restatement of judicial deposits	**25,684**	19,778	**24,124**	19,342
Compensation for examinership	**31,680**	-	**31,680**	-
Income from trade of energy	**65,123**	-	**-**	-
Other (i)	**17,237**	19,391	**9,721**	68,480
	238,688	702,346	**160,353**	459,226

(i) In 2009, Banco BTG balances comprise mainly income from interest on equity capital.

21. Other operating expenses

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Expense with tax update	**2,949**	2,295	**255**	465
Reimbursement of operating financial costs	**3,787**	-	**632**	-
Allowance for goodwill amortization	**8,377**	-	**-**	-
Other (i)	**14,756**	34,000	**565**	11,763
	29,869	36,295	**1,452**	12,228

(i) In 2010, the consolidated balances comprise mainly restatement of payables to brokers by BTG Pactual Absolute Return II Master Fund. In 2009, the consolidated and Banco BTG balances comprise mainly expenses with exchange fluctuation from management of off-shore portfolio and amnesty concerning Law No. 11941/09.

(In thousands of reais)

Non-operating income

In 2010, non-operating income comprises mainly loss on divestments and disposal of assets. In 2009, it consists of gains on sale of CETIP S.A. shares.

23. Income and social contribution taxes

The reconciliation of income tax (IRPJ) and social contribution tax (CSL) expenses with the figure obtained by applying relevant tax rate on income before taxes is shown below:

	2010		2009	
	IRPJ	**CSL**	**IRPJ**	**CSL**
Income before income tax, social contribution tax and employees' profit or gain sharing - parent company	**1,188,956**	**1,188,956**	1,145,236	1,145,236
Profit sharing	**(175,119)**	**(175,119)**	(193,855)	(193,855)
Interest on equity reserve	**(15,440)**	**(15,440)**		
Tax base - parent company	**998,397**	**998,397**	951,381	951,381
Tax rate	**25%**	**15%**	25%	15%
Income and social contribution taxes - subsidiaries	**(249,575)**	**(149,760)**	(237,821)	(142,707)
Non-deductible provisions	**15,424**	**9,254**	26,721	16,033
Net income from subsidiaries abroad	**(73,987)**	**(44,392)**	(20,362)	(12,217)
Results from mark-to-market valuation	**(37,009)**	**(22,205)**	70,210	42,126
Provision for taxes with suspended collection	**(13,506)**	**(8,103)**	(11,743)	(7,046)
Amortization of goodwill	**228,938**	**137,363**	220,765	132,459
Permanent additions/exclusions - net effect (i)	**91,003**	**54,612**	54,503	32,862
Recovery of withholding taxes levied on subsidiaries abroad	**81,863**	**-**	-	-
Result from unsettled derivatives	**3,030**	**1,820**	(5,353)	(3,144)
Tax loss carryforwards	**10,712**	**6,423**	(96,920)	(58,366)
Current provision - parent bank	**56,893**	**(14,988)**	-	-
Results from mark-to-market valuation	**28,028**	**16,838**	(70,210)	(42,126)
Unrealized gains (losses) on derivatives	**(3,030)**	**(1,820)**	71,291	42,707
Deferred provision - parent company	**24,998**	**15,018**	1,081	581
Total provision - parent company	**81,891**	**31**	1,081	581
Tax loss carryforwards	**(10,712)**	**(6,423)**	74,447	44,881
Results from mark-to-market valuation	**8,890**	**5,312**	-	-
Non-deductible provisions	**(16,361)**	**(8,049)**	(71,733)	(43,179)
Provision for taxes with suspended collection	**13,506**	**8,103**	15,656	9,394
Tax credit on goodwill upon Bank's acquisition	**(174,449)**	**(104,669)**	(220,765)	(132,459)
Deferred tax assets - parent company	**(179,126)**	**(105,726)**	(202,395)	(121,363)
Income and social contribution taxes - parent company	**(97,235)**	**(105,695)**	(201,314)	(120,782)
Current provision - subsidiaries	**(151,495)**	**(39,754)**	(39,511)	(23,115)
Deferred provision - subsidiaries	**371**	**79**	(1,282)	(530)
Deferred tax assets - subsidiaries	**8,263**	**3,914**	(59,788)	(31,052)
Income and social contribution taxes - consolidated	**(240,096)**	**(141,456)**	(301,895)	(175,479)

(i) These refer basically to equity income (loss) from subsidiaries.

(In thousands of reais)

23. Income and social contribution taxes (Continued)

Deferred income and social contribution taxes are established and recorded in accordance with criteria defined by BACEN Circular No. 3059/02, considering relevant realization period.

Deferred tax assets, included in "Other receivables - Sundry" (Note 10(b)), are shown below:

	Consolidated				
	2010			2009	
	Expected realization	IRPJ (25%)	CSL (15%)	IRPJ (25%)	CSL (15%)
Accumulated tax loss carryforward	2011 to 2015	105,346	-	111,845	-
Accumulated tax loss carryforward	2012 to 2015	-	60,684	-	65,584
Temporary additions					
Goodwill upon Bank's acquisition	2011 to 2015	239,162	143,497	459,927	275,956
Goodwill upon Bank's acquisition - BTG Pactual Investimentos S.A.	2011 to 2015	46,316	27,790	-	-
Provision for taxes with suspended collection - COFINS	2012	74,084	26,131	60,335	17,881
Provision for employees' profit sharing	-	432	156	-	-
Provision for bonuses payable	2012	12,524	7,457	-	-
Provision for taxes with suspended collection - PIS	2013	2,929	1,330	2,724	1,207
Valuation allowance - securities and investments	2013	7,069	4,242	7,069	4,242
Goodwill on investment acquisition	2013	867	-	867	-
Provision for civil contingencies	2013	566	340	613	368
Provision for labor contingencies	2013	4,525	2,714	2,321	1,393
Allowance for loan losses	2011 to 2015	42,300	25,380	68,863	41,318
Provision for marked-to-market valuation	2011	8,890	5,312	-	-
Provision for payables for securities trading and brokerage	-	13,880	8,329	13,881	8,329
Total		558,890	313,362	728,445	416,278

	Banco BTG Pactual S.A.				
	2010			2009	
	Expected realization	IRPJ (25%)	CSL (15%)	IRPJ (25%)	CSL (15%)
Accumulated tax loss carryforward	2012 a 2015	101,133	-	111,845	-
Accumulated tax loss carryforward	2012 a 2015	-	59,160	-	65,584
Temporary additions					
Goodwill upon Bank's acquisition	2011 a 2015	239,162	143,497	459,927	275,956
Goodwill upon Bank's acquisition - BTG Pactual Investimentos S.A.	2011 a 2015	46,316	27,790	-	-
Provision for taxes with suspended collection - COFINS	2012	70,900	24,401	57,395	16,296
Provision for bonuses payable	2012	9,311	5,587	-	-
Provision for taxes with suspended collection - PIS	2013	2,062	928	2,062	928
Valuation allowance - securities and investments	2013	7,069	4,242	7,069	4,242
Goodwill on investment acquisition	2013	867	-	867	-
Provision for civil contingencies	2013	566	340	613	368
Provision for labor contingencies	2013	3,634	2,181	1,592	955
Provision for marked-to-market valuation	2011	8,890	5,312	-	-
Allowance for loan losses	2011 a 2015	42,300	25,380	68,863	41,318
Total		532,210	298,818	710,233	405,647

(In thousands of reais)

23. Income and social contribution taxes (Continued)

In light of the expected realization of deferred tax assets, the present value of credit is estimated at R$ 645,464 (R$ 1,008,694 in 2009) in the consolidated and R$ 609,867 (R$ 684,751 in 2009) in Banco BTG.

Deferred tax liabilities for R$ 9,744 (R$ 50,208 in 2009) in the consolidated and R$ 8,532 (R$ 48,547 in 2009) in Banco BTG were accrued, as shown in Note 14(b).

24. Other Information

a) Deposits

Interbank and time deposits issued at market rates have the following weighted average maturity terms:

	Number of days			
	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Interbank deposits	**221**	43	**256**	43
Time deposits	**283**	416	**299**	371

b) Commitments and responsibilities

The main commitments and responsibilities of the Bank and its subsidiaries are as follows:

	Consolidated		Banco BTG Pactual S.A.	
	2010	2009	2010	2009
Co-obligation and risks for guarantees given (i)	**1,122,929**	135,311	**1,122,929**	135,311
Responsibility for the management of investment funds and portfolio management (ii)	**99,409,007**	77,830,916	**8,034,551**	9,745,611
Securities under custody (iii)	**40,274,434**	45,357,842	**40,246,349**	43,231,454
Securities trading and brokerage (iv)	**888,938,214**	318,107,476	**692,958,980**	100,657,936

(i) This refers basically to guarantees given in connection with stock exchange transactions.

(ii) This considers the total equity value of investment funds and portfolios.

(iii) This reflects third-party positions of private and government securities under custody of SELIC and CETIP S/A, respectively, recorded at their issue prices, in case of variable-rate securities, or the redemption price, in case of fixed-rate securities. This also includes clients' shares under custody of BM&FBOVESPA at the price of R$ 1.00 per share.

(iv) This represents the price of derivative purchase and sale agreements related to third party operations.

24. Other Information (Continued)

c) Intangible assets

It consists mainly of goodwill on the acquisition of BTG Pactual Empresa Operadora do Mercado Energético Ltda. - Coomex for R$ 159,171.

d) Disclosure in accordance with the International Financial Reporting Standards (IFRS)

The Bank's financial statements (Portuguese version) prepared in IFRS will be disclosed on BTG Pactual Group (www.btgpactual.com), as required by the Central Bank of Brazil.

25. Contingent assets and liabilities and legal, tax and social security obligations

The Bank and its subsidiaries' management evaluates existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Management's judgment is based on the opinion of its outside lawyers regarding the expected outcome for each proceeding.

a) Contingent assets

At December 31, 2010 and 2009, the Bank recorded no contingent assets.

b) Contingent liabilities classified as probable loss and legal obligations

Labor provisions

These relate to suits filed by former employees, mostly claiming overtime and equal pay. The contingencies are accrued for based on analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

(In thousands of reais)

25. Contingent assets and liabilities and legal, tax and social security obligations (Continued)

b) Contingent liabilities classified as probable loss and legal obligations (Continued)

Civil provisions

For civil suits with chances of probable unfavorable outcome (pain and suffering and property damages, among others), the contingency amounts are accrued for based on the opinion of internal and external legal counsel.

Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and local taxes, regarding legal obligations and contingent liabilities. The provisions are set up considering the opinion of the internal and external legal counsel and the court level to which each proceeding was submitted.

c) Breakdown and changes in provisions in the period

The Bank management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to other legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions set up for such proceedings at December 31, 2010 are adequate to cover any losses arising therefrom.

The provisions set up and related changes in the period are presented below:

	Consolidated		Banco BTG Pactual S.A.	
	2010	**2009**	**2010**	**2009**
Balance at beginning of the year	**348,720**	287,641	**335,669**	275,478
Set up	**91,543**	71,280	**87,839**	67,650
Accounting reclassification (i)	**9,844**	-	**-**	-
Write of	**(4,093)**	(10,201)	**(3,397)**	(7,559)
Balance at end of the period	**446,014**	348,720	**420,011**	335,569

(i) It consists of accounting reclassification of an amount previously classified in other tax and social security liabilities.

25. Contingent assets and liabilities and legal, tax and social security obligations (Continued)

c) Breakdown and changes in provisions in the period (Continued)

The BTG Pactual financial conglomerate has challenged in court the legal nature of some taxes and mandatory contributions. Relevant tax amounts have been fully provided for, although there are good chances of a favorable outcome, according to the opinion or assessment of the Bank's outside lawyers. The following legal disputes are to be mentioned:

COFINS - Challenge of the legal grounds for the levy of COFINS under rules established by Law No. 9718/98.

PIS - Challenge of the levy of PIS established by Constitutional Amendments No. 10 of 1996 and No. 17 of 1997.

CSL - Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

No significant contingencies have been assessed as possible losses by outside lawyers.

26. Operating limits

In accordance with the recommendations contained in the New Basel Accord (Basel II), BACEN disclosed the computation methodology for the Reference shareholders' equity and Required reference shareholders' equity as from July 1, 2008 by way of CMN Resolutions Nos. 3444/07 and 3490/07. In addition, the guidelines for determining Credit, Market, and Operating risks were established by BACEN Circulars Nos. 3360/07, 3361/07 to 3.366/07, 3368/07, 3383/08, 3388/08 and 3389/08, the guidelines for calculation of the credit risk, market risk and operating risk.

(In thousands of reais)

26. Operating limits (Continued)

The Basel index is calculated based on the consolidated financial statements comprising all subsidiaries.

	2010	2009
Reference shareholders' equity (PR)	**5,567,094**	3,160,793
Shareholders' equity	**5,602,593**	3,244,500
Tax credits excluded from PR tier I	**(3,857)**	(3,652)
Deferred permanent assets	**(11,073)**	(15,935)
Deductions from PR	**(20,569)**	(64,120)
Required reference shareholders' equity (PRE)	**2,841,792**	1,688,534
Credit risk	**1,631,880**	896,756
Market risk	**943,183**	559,402
Operating risk	**266,729**	232,376
Excess PR: (PR-PRE)	**2,725,302**	1,472,258
Basel index: (PRx100)/PRE/0.11)	**21.55%**	20.59%

The Bank opted for the foundation approach to measure its Operating risk.

The capital expenditures limit - as determined by CMN by way of Resolution No. 2283/96, as amended by Resolution No. 2669/99 and reworded by Resolutions Nos. 2743/00 and 3426/06 - is also calculated on a consolidated basis, comprising all subsidiaries:

	2010	2009
Capital expenditures limit (50%):	**2,781,409**	1,580,396
Reference shareholders' equity	**5,562,818**	3,160,793
Stock exchange membership certificate	**(4,276)**	(36,762)
Capital expenditures limit status:	**2,256,144**	1,453,572
Permanent assets	**393,088**	56,410
Deferred permanent assets	**(11,073)**	(15,935)
Stock exchange membership certificates	**(4,276)**	(36,762)
Intangible assets excluded of capital expenditures limit	**(174,832)**	-
Variable income securities under current assets	**2,053,237**	1,449,859
Margin	**525,265**	108,444

At December 31, 2010 and 2009, all operating limits are duly complied with.

27. Subsequent events

On January 31, 2011 the Bank committed to acquire all shares from Banco PanAmericano S.A. that were held by Silvio Santos Group for R$ 450 million. Accordingly, after the approval by the relevant authorities and the completion of the transaction, the Bank will hold 37.64% in that retail institution's shareholders' equity, of which 51.00% of common shares and 21.97% of preferred shares. Once the transaction is completed, Banco PanAmericano S.A. will be controlled together with Caixa Econômica Federal and, on the date the transaction is completed, a equity offering will be made to the non-controlling shareholders under the same conditions offered to the controlling shareholder. The financial statements for the period ended December 31, 2010 of Banco PanAmericano S.A. were disclosed on February 22, 2011.

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