# Financial Statements

## Banco Rabobank International Brasil S.A.

June 30, 2012 and 2011
with Independent Auditors' Report

**Banco Rabobank International Brasil S.A.**

Financial statements

June 30, 2012 and 2011

Contents

# Management Report

Dear Shareholders,

We submit to your analysis the financial statements of Banco Rabobank International Brasil S.A. for the six-month period ended June 30, 2012 and 2011, and related notes to financial statements and independent auditors' report.

## Risk management structure

### Credit Risk

Credit risk is defined by measuring repayment capacity of each customer, and such risks are measured and managed by specific function under the responsibility of the Risk Management Executive Management, where all decisions are taken through internal and external committees, according to duty segregations determined by the Bank. All standards and procedures are part of Rabobank Group Credit Policy, duly approved by the Bank's local executive management.

### Market risk

Market risk is defined as the risk of loss resulting from changes in rates, indexes, prices and other macroeconomic and microeconomic variables that may impact assets and financial derivatives in portfolio.

Market risk is controlled through a system that computes traditional market risk metrics (VaR, Stress Test and Stop-Loss mechanisms), by crosschecking daily values of these metrics against prudent limits established by the Bank's executive management seeking safe business operations for the Bank.

### Liquidity risk

Liquidity Risk is defined as the risk of mismatch in the Bank's cash flow, deriving from the difficulty in rapidly disposing of an asset or obtaining funds, which renders it impossible to settle financial positions.

The management process regarding liquidity risk is conducted in a corporate and centralized manner, which comprises monitoring the funds available, compliance with a minimum liquidity level and with the contingency plan for stress situations.

**Operating risk**

Operating risk is defined as the risk of loss arising from failure, weakness or inadequacy in internal processes, human behavior and systems, or from external events. Legal risk is included in this definition, but not business or reputational risk.

The Operating Risk Management Structure defined above is formalized in the Operating Risk Policy.

This policy sets guidelines, methodologies and procedures compatible with the nature and complexity of the Bank's products, services, activities, processes and systems, and is to be applied to all Bank's people. The structure provides for procedures to identify, assess, monitor, control and mitigate operating risks, defines roles and responsibilities of each professional and presents a structured communication process.

Operating risk management activities are represented by the Financial Executive Management, statutory executive management reporting to the Bank's CEO, as defined in the National Monetary Board (CMN) Resolution No. 3380/2006.

Market and credit risk management activities are represented by Risk Executive Management, statutory executive management reporting to the Bank's CEO, as defined in CMN Resolutions No. 3464/2007 and No. 3721/2009.

Credit, market and operating risk management structure is described at www.rabobank.com.br.

We thank our employees for their dedication and talent which supported us to achieve all of our goals, our customers and shareholders for their belief in us.

São Paulo, August 10, 2012.

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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 applicable to institutions accredited by the Central Bank of Brazil**

## Independent auditors' report on financial statements

The Board of Directors and Officers
**Banco Rabobank International Brasil S.A.**

### Introduction

We have audited the accompanying financial statements of Banco Rabobank International Brasil S.A., which comprise the balance sheet at June 30, 2012, and related income statements, statements of changes in shareholders' equity and cash flow statements for the six-month period 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 these financial statements in accordance with accounting practices adopted in Brazil, applicable to Institutions accredited by the Central Bank of Brazil (BACEN), 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.

### Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, which were conducted 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 the financial statements are free from material misstatement.

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

**Opinion**

In our opinion, the abovementioned financial statements present fairly, in all material respects, the financial position of Banco Rabobank International Brasil S.A. as of June 30, 2012, and its financial performance and its cash flows for the six-month period then ended, in accordance with accounting practices adopted in Brazil that are applicable to institutions accredited by the Central Bank of Brazil.

São Paulo, August 15, 2012.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC 2SP015199/O-6

Flávio Serpejante Peppe
Audit Partner

# Banco Rabobank International Brasil S.A.

## Balance sheets
## June 30, 2012 and 2011
## (In thousands of reais)

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Current | **9,934,565** | 6,958,513 |
| Cash and cash equivalents | **25,654** | 249,615 |
| Short-term investments | **3,542,017** | 1,590,913 |
| Open market investments | **3,519,145** | 1,539,262 |
| Interbank deposits | **2,665** | 51,651 |
| Transactions denominated in foreign currency | **20,207** | - |
| Marketable securities and derivative financial instruments | **1,979,720** | 2,197,605 |
| Own portfolio | **1,865,715** | 1,852,498 |
| Subject to repurchase agreements | **-** | 35,843 |
| Subject to guarantees given | **29,086** | 249,093 |
| Derivative financial instruments | **84,919** | 60,171 |
| Interbank accounts | **3,278** | 2,815 |
| Unsettled payments and receipts | **2** | 1 |
| Restricted deposits: | | |
| Central Bank of Brazil | **3,261** | 2,755 |
| Correspondent banks | **15** | 59 |
| Loans | **2,145,714** | 1,403,764 |
| Private sector | **2,191,123** | 1,436,502 |
| Allowance for loan losses | **(45,409)** | (32,738) |
| Sundry | **2,236,745** | 1,513,796 |
| Foreign exchange portfolio | **2,210,020** | 1,497,988 |
| Income receivable | **6,274** | 6,323 |
| Securities trading and brokerage | **7,168** | - |
| Sundry | **17,365** | 11,172 |
| Allowance for other loan losses | **(4,082)** | (1,687) |
| Other assets | **1,437** | 5 |
| Other assets | **1,160** | - |
| Prepaid expenses | **277** | 5 |
| Non-current assets | **3,179,081** | 2,881,431 |
| Marketable securities and derivative financial instruments | **779,867** | 1,523,562 |
| Own portfolio | **624,073** | 1,513,632 |
| Subject to guarantees given | **145,873** | - |
| Derivative financial instruments | **9,921** | 9,930 |
| Loans | **2,322,393** | 1,279,885 |
| Private sector | **2,382,327** | 1,335,139 |
| Allowance for loan losses | **(59,934)** | (55,254) |
| Sundry | **76,821** | 77,984 |
| Sundry | **76,821** | 83,203 |
| Allowance for other loan losses | **-** | (5,219) |
| Permanent assets | **24,651** | 16,429 |
| Investments | **6** | 6 |
| Other investments | **6** | 6 |
| Property and equipment in use | **13,280** | 6,515 |
| Other property and equipment in use | **22,071** | 15,230 |
| Accumulated depreciation | **(8,791)** | (8,715) |
| Intangible assets | **11,365** | 9,908 |
| Intangible assets | **15,597** | 12,104 |
| Accumulated amortization | **(4,232)** | (2,196) |
| Total | **13,138,297** | 9,856,373 |

| | 2012 | 2011 |
|---|---|---|
| Liabilities and shareholders' equity | | |
| Current | **7,177,855** | 7,091,590 |
| Deposits | **216,068** | 112,389 |
| Demand deposits | **20,737** | 17,918 |
| Interbank deposits | **143,403** | - |
| Time deposits | **51,928** | 94,276 |
| Other deposits | **-** | 195 |
| Open market funding | **592,355** | 948,391 |
| Own portfolio | **-** | 35,730 |
| Third-party portfolio | **592,355** | 912,661 |
| Funds from acceptance and issue of securities | **2,078,877** | 1,800,005 |
| Real estate, mortgage, credit an similar notes | **2,078,877** | 1,800,005 |
| Interbank accounts | **3** | 72 |
| Unsettled receipts and payments | **3** | 72 |
| Interdepartmental accounts | **32,420** | 22,511 |
| Third-party funds in transit | **32,420** | 22,511 |
| Borrowings | **2,181,294** | 1,238,308 |
| Foreign borrowings | **2,181,294** | 1,238,308 |
| Local on-lending – Official Institutions | **173,401** | 117,257 |
| BNDES | **19,503** | 21,614 |
| FINAME | **73,780** | 52,939 |
| Other institutions | **80,118** | 42,704 |
| Foreign on-lending | **782,303** | 1,546,494 |
| Foreign on-lending | **782,303** | 1,546,494 |
| Derivative financial instruments | **47,915** | 113,541 |
| Derivative financial instruments | **47,915** | 113,541 |
| Other liabilities | **1,073,219** | 1,192,622 |
| Collection of taxes and other contributions | **410** | 927 |
| Foreign exchange portfolio | **928,757** | 1,092,824 |
| Social and statutory | **2,790** | 1,981 |
| Income and social security taxes | **75,120** | 32,765 |
| Securities trading and brokerage | **-** | 4,809 |
| Subordinated debts | **31,091** | 30,583 |
| Sundry | **35,051** | 28,733 |
| Non-current liabilities | **4,990,367** | 2,063,116 |
| Deposits | **1,475,640** | 332,288 |
| Interbank deposits | **1,269,397** | 82,106 |
| Time deposits | **206,243** | 250,182 |
| Funds from acceptance and issue of securities | **160,370** | 1,291 |
| Real estate, mortgage, credit an similar notes | **160,370** | 1,291 |
| Borrowings | **44,943** | 34,982 |
| Foreign borrowings | **44,943** | 34,982 |
| Local on-lending – Official Institutions | **382,742** | 282,657 |
| BNDES | **87,594** | 99,658 |
| FINAME | **291,847** | 175,193 |
| Other institutions | **3,301** | 7,806 |
| Foreign on-lending | **2,603,751** | 1,101,552 |
| Foreign on-lending | **2,603,751** | 1,101,552 |
| Derivative financial instruments | **15,930** | 3,857 |
| Derivative financial instruments | **15,930** | 3,857 |
| Other liabilities | **306,991** | 306,489 |
| Income and social security taxes | **6,567** | 6,267 |
| Subordinated debts | **300,000** | 300,000 |
| Sundry | **424** | 222 |
| Shareholders 'Equity | **970,075** | 701,667 |
| Capital: | | |
| Foreign residents | **575,465** | 443,184 |
| Income reserve - Statutory | **263,722** | 180,463 |
| Income reserve - Legal | **32,191** | 23,349 |
| Mark to market adjustments | **6,573** | 8,118 |
| Retained earnings | **92,124** | 46,553 |
| Total | **13,138,297** | 9,856,373 |

See accompanying notes.

## Banco Rabobank International Brasil S.A.

Income statements
Six-month periods ended June 30, 2012 and 2011
(In thousands of reais, except earnings per thousand shares)

| | 2012 | 2011 |
|---|---|---|
| Interest income | **910,103** | 154,868 |
| Credit operations | **443,033** | 30,515 |
| Marketable security transactions | **280,069** | 297,921 |
| Derivative financial instruments | **45,490** | (173,568) |
| Foreign exchange transactions | **141,511** | - |
| Interest expenses | **(658,940)** | (9,286) |
| Open market funding | **(170,045)** | (140,506) |
| Loans and on-lending | **(471,889)** | 200,227 |
| Foreign exchange transactions | **-** | (42,923) |
| Allowance for loan losses | **(17,006)** | (26,084) |
| Gross income interest | **251,163** | 145,582 |
| Other operating income (expenses) | **(82,700)** | (42,578) |
| Revenue from services rendered | **25,234** | 20,375 |
| Expenses with personnel | **(56,998)** | (24,787) |
| Expenses with executive management remuneration | **(2,958)** | (5,843) |
| Other administrative expenses | **(33,511)** | (23,439) |
| Tax expenses, other than income taxes | **(13,755)** | (8,596) |
| Other operating income | **81** | 889 |
| Other operating expenses | **(793)** | (1,177) |
| Operating income | **168,463** | 103,004 |
| Non-operating income (loss) | **(165)** | 10 |
| Income before income tax and profit sharing | **168,298** | 103,014 |
| Income and social contribution taxes | **(68,400)** | (37,074) |
| Provision for income tax | **(42,622)** | (17,919) |
| Provision for social contribution tax | **(25,483)** | (10,648) |
| Deferred tax assets | **(295)** | (8,507) |
| Profit sharing | **(2,925)** | (16,937) |
| Net income for the period | **96,973** | 49,003 |
| Earnings per thousand shares – R$ | **175.61** | 115.23 |

See accompanying notes.

# Banco Rabobank International Brasil S.A.

Statements of changes in shareholders' equity
Six-month periods ended June 30, 2012 and 2011
(In thousands of reais)

| | Capital | Capital increase | Income reserve - Statutory | Income reserve - Legal | Mark to Market Adjustments | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2010 | 411,962 | 31,222 | 180,463 | 20,899 | 8,133 | - | 652,679 |
| Capital increase approved in Special Shareholders' Meeting (AGE) held on December 30, 2010 | 31,222 | (31,222) | - | - | - | - | - |
| Mark to market - marketable securities and derivative financial instruments | - | - | - | - | (15) | - | (15) |
| Net income for the period | - | - | - | - | - | 49,003 | 49,003 |
| Allocations: | | | | | | | |
| Legal reserve | - | - | - | 2,450 | - | (2,450) | - |
| Balances at June 30, 2011 | 443,184 | - | 180,463 | 23,349 | 8,118 | 46,553 | 701,667 |
| Balances at December 31, 2011 | **443,184** | **33,287** | **263,722** | **27,342** | **10,888** | **-** | **778,423** |
| Capital increase approved in Special Shareholders' Meeting (AGE) held on December 30, 2011 | **33,287** | **(33,287)** | **-** | **-** | **-** | **-** | **-** |
| Capital increase approved in Special Shareholder's Meeting (AGE) held on January 26, 2012 | **98,994** | **-** | **-** | **-** | **-** | **-** | **98,994** |
| Market value adjustments - marketable securities and derivative financial instruments | **-** | **-** | **-** | **-** | **(4,315)** | **-** | **(4,315)** |
| Net income for the period | **-** | **-** | **-** | **-** | **-** | **96,973** | **96,973** |
| Allocations: | | | | | | | |
| Legal reserve | **-** | **-** | **-** | **4,849** | **-** | **(4,849)** | **-** |
| Balances at June 30, 2012 | **575,465** | **-** | **263,722** | **32,191** | **6,573** | **92,124** | **970,075** |

See accompanying notes.

## Banco Rabobank International Brasil S.A.

Cash flow statements
Six-month periods ended June 30, 2012 and 2011
(In thousands of reais)

| | 2012 | 2011 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income for the period | **96,973** | 49,003 |
| Adjustment to net income: | | |
| Market value adjustments | **(4,315)** | (15) |
| Depreciation | **1,190** | 1,100 |
| Amortization | **1,189** | 700 |
| Allowance for loan losses | **17,006** | 26,084 |
| Provisions (reversals) for civil, labor and tax claims | **(627)** | 9 |
| Net income after adjustments | **111,416** | 76,881 |
| (Increase) in marketable securities and derivative financial instruments | **(144,394)** | (1,037,171) |
| (Increase) decrease in interbank accounts | **(112)** | 13 |
| Increase (decrease) in interdepartmental accounts | **12,380** | (22,247) |
| (Increase) in loans | **(574,340)** | (109,895) |
| (Increase) in other receivables | **(416,692)** | (631,757) |
| (Increase) decrease in prepaid expenses | **(173)** | 120 |
| Increase (decrease) in other liabilities | **(202,450)** | 691,063 |
| | **(1,325,781)** | (1,109,874) |
| Net cash used in operating activities | **(1,214,366)** | (1,032,993) |
| Cash flow from investing activities: | | |
| Disposal of property and equipment in use | **212** | 3 |
| Acquisition of property and equipment in use | **(3,011)** | (1,525) |
| Acquisition of intangible assets | **(944)** | (1,497) |
| Net cash used in investing activities | **(3,743)** | (3,019) |
| Cash flow from financing activities: | | |
| Increase (decrease) in deposits | **1,185,843** | (65,045) |
| Increase (decrease) in open market funding | **41,187** | (68,456) |
| Increase in funds from issue of securities | **209,369** | 352,421 |
| Increase in borrowings and on-lending | **725,587** | 654,325 |
| Capital increase | **98,994** | - |
| Net cash from financing activities | **2,260,980** | 873,245 |
| Increase (decrease) in cash and cash equivalents | **1,042,871** | (162,767) |
| Cash and cash equivalents | | |
| At the beginning of the period | **2,524,800** | 2,003,295 |
| At the end of the period | **3,567,671** | 1,840,528 |
| Increase (decrease) in cash and cash equivalents | **1,042,871** | (162,767) |

See accompanying notes.

## 1. Operations

Banco Rabobank International Brasil S.A. (Bank) is a subsidiary of Rabobank International Holding B.V. and its incorporation was authorized by a Presidential Decree on August 8, 1995. The entity operates as a Multiple Bank and is engaged in transactions involving assets and liabilities inherent to commercial, investment and foreign exchange portfolios.

## 2. Presentation of the financial statements and significant accounting practices

These financial statements are the responsibility of the Bank's management and were prepared in accordance with accounting practices contained in Brazilian Corporation Law, in conjunction with standards and guidelines from the Central Bank of Brazil (BACEN).

In accordance with BACEN Circular Nº. 2804/1998, transactions carried out by the foreign branch (Cayman) are presented together with the Bank's financial statements.

These financial statements were prepared in accordance with accounting practices adopted in Brazil and require that management use its best assumption and judgment to determine adequate amount and record accounting estimates, such as allowance for loan losses, deferred income tax, provision for contingencies and valuation allowance for derivative assets and liabilities. Settlement of these transactions involving these estimates may result in amounts significantly different from those estimated, due to inaccuracies underlying their determination process.

Summary of significant accounting practices:

a) Determination of profit or loss

Revenues and expenses are recognized on an accrual basis, in light of the pro rata criteria for financial transactions. Asset and liability transactions with foreign exchange variation clauses are restated at applicable foreign currency purchase and selling rate as of the balance sheet date, in accordance with contractual provisions.

## 2. Presentation of the financial statements and significant accounting practices (Continued)

b) Cash and cash equivalents

Cash and cash equivalents are represented by cash in local and foreign currency, open market investments and interbank deposits, maturing within no longer than 90 days from investment date, and with insignificant risk of change in fair value, which are used by the Bank to manage its short-term commitments.

c) Short-term investments

Fixed-income investments are recorded at redemption value, less deferred income, and floating operations at the cost value, plus yields through the balance sheet date.

d) Marketable securities

In accordance with BACEN Circular No 3068/2001 and supplementary regulation, marketable securities are stated under the following accounting recording and valuation criteria, into the categories below:

- *Trading securities* – acquired in order to be frequently and actively traded, these securities are marked to market. Market value adjustments are matched against P&L for the period;
- *Available for sale* – not qualifying as trading or held to maturity, these securities are marked to market. Market value adjustments are matched against a specific account in equity, net of tax effects, which are transferred to P&L for the period when they are effectively realized;
- *Held to maturity* – those securities the Bank intends and has the financial capacity to hold to maturity. Financial capacity is defined in a cash flow project, disregarding the likelihood of selling said securities (BACEN Circular Nº. 3129/2002). They are carried at acquisition cost, plus yields through the balance sheet date, against P&L for the period.

## 2. Presentation of the financial statements and significant accounting practices (Continued)

e) Derivative financial instruments

Pursuant to BACEN Circular Nº. 3082/2002 and subsequent regulations, transactions with derivative financial instruments comprise forward, options, futures and swap transactions are carried under the following criteria:

- *Forward transactions* – these are recorded at final contract value, less difference between this amount and price in cash of the asset or right. Income and expenses are recorded in relation to the terms of the contracts through the balance sheet date;
- *Options transactions* – premiums paid or received are recorded as assets or liabilities, respectively, until the option is effectively exercised. If the option is effectively exercised, it is then recorded as increase or decrease in asset or right cost; should it not be exercised, it is recorded as a revenue or an expense;
- *Futures transactions* – daily adjustments are recorded as assets or liabilities and daily allocated as revenues or expenses;
- *Swap transactions* – the difference receivable or payable is recorded as an asset or liability, respectively, and then allocated as revenues or expenses on a pro-rata basis through the balance sheet date.

Transactions with derivative financial instruments carried out as customers' request or on Bank's own account, whether meeting or not criteria of hedge against global risk exposure and not qualifying as transactions related to assumptions disclosed by BACEN Circular No 3150/2002, are marked to market, and their appreciation or depreciation is recorded as follows:

- Derivative financial instruments not considered hedge in a revenue and expense account, under P&L for the period; and
- Derivative financial instruments considered hedge are classified as market risk hedge and cash flow hedge.

## 2. Presentation of the financial statements and significant accounting practices (Continued)

e) Derivative financial instruments (Continued)

Hedge against market risk is intended to offset risks arising from exposure to market value variation of the hedged item, and its appreciation or depreciation is matched against revenues and expenses accounts in P&L for the period. Cash flow hedge is intended to offset estimated future cash flow variation, and the effective portion of its appreciation or depreciation is matched against equity, net of taxes. The corresponding hedged items are also marked to market as of the balance sheet date.

f) Credit and foreign exchange transactions

Credit transactions, including advances on export foreign exchange contracts, are classified according to management's judgment by risk level, considering economic situation, past experience and specific risks related to transactions, debtors and guarantors, in light of the parameters established by CMN Resolution Nº. 2682/1999 and supplementary standards, which require that the portfolio and its classification into nine levels (AA for minimum risk and H for loss) be periodically reviewed. After six months, transactions classified as H and overdue for more than 180 days are written off to losses.

Revenue from credit transactions overdue for over 60 days, irrespective of the risk level, is only recorded as revenue when it is effectively received. These transactions were classified as non-current assets.

Allowance for loan losses, considered sufficient by management, is set up for the amount established in the aforementioned Resolution (Note 6b).

g) Permanent assets

Property and equipment in use is stated at acquisition cost, less accumulated depreciation. Depreciation is calculated under the straight-line method, based on the asset useful life, at the following annual rates: furniture and equipment in used and communication system – 10% and data processing system and vehicles – 20%.

Intangible assets correspond to expense with system acquisition, amortized on a straight-line basis at the annual rate of 20%.

## 2. Presentation of the financial statements and significant accounting practices (Continued)

h) Impairment of non-financial assets

Impairment is recognized if the book value of an asset or of its cash-generating unit exceeds its recoverable value. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in P&L for the period.

Non-financial assets, except for tax credits, are reviewed at last annually so as to determine whether there is any indication of impairment.

i) Liabilities measurement criteria

Liabilities, charges and risks recognized or subject to calculation, including taxes charges calculated based on income for the period, are carried at restated value through balance sheet date.

Foreign currency liabilities are translated into local currency at the exchange rates in force as of the balance sheet date, as disclosed by BACEN, whereas liabilities subject to monetary restatement based on contractual provisions are carried at restated value through balance sheet date.

j) Income and social contribution taxes

Income tax is calculated at 15%, with a 10% surtax on taxable income exceeding R$ 240 (R$ 120 for a six-month period), adjusted by additions and exclusions provided for in legislation. Social contribution tax payable is computed on profit adjusted in accordance with legislation in force, at the rate of 15%.

Income and social contribution tax losses, temporarily non-deductible expenses and market value adjustments of derivative instruments were computed at the rate of 25% for income tax and 15% for social contribution tax purposes and are carried as Other Receivables - Sundry, as stated in Note 9.

## 2. Presentation of the financial statements and significant accounting practices (Continued)

k) Contingent assets and liabilities and legal, tax and social security obligations

Contingent assets and liabilities, and legal, tax and social security obligations are recognized, measured and disclosed in accordance with the following criteria:

- *Contingent assets* – these are only recognized in financial statements upon existence of evidence guaranteeing their realization, on which no further appeals can be filed.
- *Contingent liabilities* – these are recognized in financial statements when, based on the opinion of legal advisors and management, the likelihood of an unfavorable outcome for a lawsuit or administrative proceeding is considered probable, with a probable outflow of financial resources for the settlement of obligations and the amounts involved can be reliably measured. Contingent liabilities considered as possible losses by legal counsel are only disclosed in the notes to financial statements, while those rated as remote require neither provision nor disclosure.
- *Legal, tax and social security obligations* – these refer to lawsuits in which lawfulness and constitutionality of some taxes and contributions have been challenged. The amount under discussion is quantified, recorded and restated on a monthly basis.

l) Net income (loss) per share

Net income (loss) per share are calculated based on the number of shares at the financial statements date.

m) Subsequent events

CMN Resolution No. 3973/2012 provides for record and disclosure of subsequent events within the financial statements period, as set forth by CPC Pronouncement No. 24. No subsequent events under such requirements were identified by management since these financial statements last approval on August 10, 2012.

(In thousands of reais)

## 3. Short-term investments

At June 30, 2012, short-term investments are represented by repurchase agreements, secured by federal government bonds, under custody of BACEN's Brazilian Special System for Settlement and Custody (SELIC), by interbank deposits and by foreign currency investments; at June 30, 2011, they were represented by repurchase agreements, secured by federal government bonds, under custody of BACEN's SELIC, and by foreign currency investments.

## 4. Marketable securities

Breakdown of security portfolio is summarized as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **Description** | **Book value** | **Market value** | **Book value** | **Market value** |
| Federal Government Bonds – National Treasury | **944,267** | **944,267** | 1,828,444 | 1,828,444 |
| Pão de Açúcar – Credit Right Investment Fund (FIDC) | **1,193,792** | **1,193,792** | 1,162,503 | 1,162,503 |
| Tribanco-Martins – Credit Right Investment Fund | **154,724** | **154,724** | 95,596 | 95,596 |
| Minerva – Credit Right Investment Fund | **60,331** | **60,331** | 53,257 | 53,257 |
| Nutriplant – Credit right investment fund | **-** | **-** | 4,561 | 4,561 |
| Equity shares | **-** | **-** | 13,630 | 13,630 |
| Debentures | **132,958** | **132,958** | 197,715 | 197,715 |
| Rural Product Bill | **3,716** | **3,716** | 10,424 | 10,424 |
| Subtotal - own portfolio | **2,489,788** | **2,489,788** | 3,366,130 | 3,366,130 |
| Federal Government Bonds – National Treasury | **-** | **-** | 35,843 | 35,843 |
| Subtotal subject to repurchase agreements | **-** | **-** | 35,843 | 35,843 |
| Federal Government Bonds – National Treasury | **174,959** | **174,959** | 249,093 | 249,093 |
| Subtotal subject to guarantees given | **174,959** | **174,959** | 249,093 | 249,093 |
| | **2,664,747** | **2,664,747** | 3,651,066 | 3,651,066 |

(In thousands of reais)

## 4. Marketable securities (Continued)

Classification by category and term:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Book value by maturity | | |
| Category | Restated cost | Market value | Book value | Up to 90 days | From 91 to 365 days | Over 365 days |
| LFT | **6,411** | **6,418** | **6,418** | **-** | **-** | **6,418** |
| LTN | **915,698** | **918,440** | **918,440** | **584,512** | **22,447** | **311,481** |
| NTN-F | **163,741** | **172,006** | **172,006** | **7,642** | **-** | **164,364** |
| Debentures | **133,018** | **132,958** | **132,958** | **-** | **-** | **132,958** |
| FIDC (*) | **1,408,847** | **1,408,847** | **1,408,847** | **-** | **1,254,122** | **154,725** |
| CPR | **3,716** | **3,716** | **3,716** | **-** | **3,716** | |
| Available for sale | **2,631,431** | **2,642,385** | **2,642,385** | **592,154** | **1,280,285** | **769,946** |
| LFT | **58** | **58** | **58** | **58** | **-** | **-** |
| NTN-B | **21,693** | **22,304** | **22,304** | **22,304** | **-** | **-** |
| Trading | **21,751** | **22,362** | **22,362** | **22,362** | **-** | **-** |
| | **2,653,182** | **2,664,747** | **2,664,747** | **614,516** | **1,280,285** | **769,946** |
| 2011 | 3,639,242 | 3,651,066 | 3,651,066 | 2,127,010 | 10,424 | 1,513,632 |

(*) FIDCs are updated by rate disclosed by each Manager, taking into account senior rate benchmark.

Government bonds are marked to market based on the market prices disclosed by the Brazilian Association of Capital and Financial Market Entities (ANBIMA) at the balance sheet date, whereas shares are marked to market based on quotations disclosed by BM&FBOVESPA.

Market value adjustments of marketable securities classified as available for sale, in the amount of R$ 6,573 (2011 – R$ 8,118), net of tax effects, recognized in a specific account under Shareholders' Equity.

Securities classified as trading are marked to market against P&L for the period and are carried in the balance sheet, under current assets, irrespective of their maturity dates.

Debentures are measured by the respective related rate and/or index. Restated cost value of debentures rated at CDI approximates market value. Debentures rated at other indices are marked to market through unit prices disclosed by ANBIMA.

## 4. Marketable securities (Continued)

Classification by category and term: (Continued)

Fixed-income private bonds, except for FIDC Pão de Açúcar, which is under custody of Banco Itaú Unibanco S.A., are under custody of Brazilian OTC Clearing House (CETIP), government bonds are under custody of SELIC, and shares are under custody of Brazilian Clearing House for the Custody and Financial Settlement of Securities (CBLC).

Investments in FIDC are related to senior shares acquired, whose book value refers to the corresponding senior share price disclosed by fund managers for the last working day of the month.  FIDC financial statements are audited on an annual basis and the past independent auditor's reports on financial statements were all unqualified. Term of these FIDC is determined and their main characteristics are summarized as follows:

| Manager | Funds | Credit right origin |
|---|---|---|
| Concórdia S.A. Corretora de Valores Mobiliários Câmbio e Commodities | | |
| Pão de Açúcar – Credit Right Investment Fund | | "Pão de Açúcar" Companies |
| Tribanco-Martins – Credit Right Investment Fund | | "Martins" Company |
| Oliveira Trust Distribuidora de Títulos e Valores Mobiliários S.A. | | |
| Minerva – Credit Right Investment Fund – Mercantile Credit | | "Minerva" Company |
| Nutriplant – Agricultural Industry Credit Right Investment Fund | | "Nutriplant" Company |

Managers of FIDC Pão de Açúcar and Tribanco-Martins have engaged Banco Itaú Unibanco S.A., and those of FIDC Nutriplant and Minerva have engaged Oliveira Trust Distribuidora de Títulos e Valores Mobiliários S.A. to render treasury, custody, asset and liability control services related to abovementioned FIDC, in accordance with legal and regulatory standards.

## 5. Derivative financial instruments

Policy of use

The Bank takes part in operations involving derivative financial instruments, recorded in balance sheet and offset accounts, for the purpose of meeting its customers' and its own needs to hedge against market risks mainly arising from interest rate fluctuation, current and foreign exchange coupon risks. Hedge instruments efficiency is ensured by balance between derivative financial instrument price fluctuation and market value of hedged items. An asset item is hedged in order to balance future amounts upon maturity of the transaction. The Bank has a portfolio which can be considered extensive when compared to the market. Therefore, the duration methodology is used for hedge to be effective.

Strategies and parameters to manage risk and market participation

- The Bank has a specific function in charge of risk management. Trading limits and controls for assuming each type of risk are defined. In order to guarantee that maximum values are met, simulations are conducted upon every new operation added. Should there not be sufficient limits, the operation is not carried out or a hedge is taken out against such risk. Among the limits established locally and approved by the Bank's head office, the decision to take out hedge is made by the operation desk officer.
- A report stating the limits and positions of all risk and cash flow books is generated on a daily basis. This report is monitored by Bank's top management and, should they detect an exceeded trading limit or control, features of such exceeding trading limit or control are entered into a global system, as well as the explanation given by the Market Risk function. An approval flow is then generated so that all relevant functions are warned about such exceeding trading limit or control – from the trader in charge to the Global Risk Manager in Holland, as the case may be.
- The Bank uses the risk system designed by its head office which is based on Value-at-Risk (VaR) methodology with a 252-day horizon, through historical simulation. In case of non-parametric products, the scenario methodology is used to calculate VaR. Reliability level is 97.5%.
- The Bank considers it has been effective in using derivatives for hedge purposes.

(In thousands of reais)

## 5. Derivative financial instruments (Continued)

Assessment and measurement criteria

Derivative financial instruments and hedged items are marked to market by discounting deferred income to present value, through interest rate curves built by own methodology, which is mainly based on data disclosed by BM&FBOVESPA.

Derivative financial instruments reflecting on assets and liabilities accounts are:

| Derivative financial instruments - Assets | 2012 | 2011 |
|---|---|---|
| Swap – amounts receivable | **1,907** | 42,761 |
| Options – premiums paid | **11,347** | 7,428 |
| Swap with waiver option | **331** | - |
| NDF – amounts receivable | **81,255** | 19,912 |
| | **94,840** | 70,101 |
| **Derivative financial instruments - Liabilities** | | |
| Swap – amounts payable | **(40,160)** | (10,783) |
| Options – premiums received | **(7,380)** | (6,819) |
| NDF – amounts payable | **(16,305)** | (99,796) |
| | **(63,845)** | (117,398) |

a) *The swap portfolio is summarized as follows:*

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | | Market value | | | |
| | Notional value | Assets | Liabilities | Net position | Net position |
| I) Index: | | | | | |
| CDI x US Dollar | **421,251** | **445,641** | **(478,909)** | **(33,268)** | 41,184 |
| CDI x Index | **125,000** | **138,476** | **(144,294)** | **(5,818)** | (104) |
| US Dollar x CDI | **-** | **-** | **-** | **-** | (9,990) |
| US Dollar x Other | **94,671** | **113,019** | **(111,325)** | **1,694** | 1,435 |
| Other x CDI | **40,000** | **40,138** | **(40,128)** | **10** | - |
| Other x US Dollar | **94,671** | **111,324** | **(112,195)** | **(871)** | (547) |
| | **775,593** | **848,598** | **(886,851)** | **(38,253)** | 31,978 |
| II) Trading place: | | | | | |
| OTC | **775,593** | **848,598** | **(886,851)** | **(38,253)** | 31,978 |
| | **775,593** | **848,598** | **(886,851)** | **(38,253)** | 31,978 |
| III) Maturity: | | | | | |
| Up to 90 days | **102,273** | **112,791** | **(114,719)** | **(1,928)** | 10,489 |
| From 91 to 365 days | **291,970** | **319,324** | **(341,907)** | **(22,583)** | 13,270 |
| Over 365 days | **381,350** | **416,483** | **(430,225)** | **(13,742)** | 8,219 |
| | **775,593** | **848,598** | **(886,851)** | **(38,253)** | 31,978 |

(In thousands of reais)

## 5. Derivative financial instruments (Continued)

Assessment and measurement criteria (Continued)

b) *The swap with waiver option portfolio is summarized as follows:*

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | | Market value | | | |
| | **Notional value** | **Assets** | **Liabilities** | **Net position** | **Net position** |
| I) Type: | | | | | |
| Call option | **5,471** | **331** | **-** | **331** | - |
| | **5,471** | **331** | **-** | **331** | - |
| II) Trading place: | | | | | |
| OTC | **5,471** | **331** | **-** | **331** | - |
| | **5,471** | **331** | **-** | **331** | - |
| III) Maturity: | | | | | |
| From 91 to 365 days | **3,084** | **162** | **-** | **162** | - |
| Over 365 days | **2,387** | **169** | **-** | **169** | - |
| | **5,471** | **331** | **-** | **331** | - |

(In thousands of reais)

## 5. Derivative financial instruments (Continued)

Assessment and measurement criteria (Continued)

c) *The portfolio of contracts and premiums of dollar options is summarized as follows:*

| | 2012 | | | | | 2011 |
|---|---|---|---|---|---|---|
| | | | Market value | | | |
| | Contract financial value | Cost value | Assets | Liabilities | Net position | Net position |
| I) Type: | | | | | | |
| a) Flexible options: | | | | | | |
| Purchase of call options | - | - | - | - | - | 70 |
| Purchase of put options | 9,210 | 176 | 3 | - | 3 | 862 |
| Sale of call options | 33,983 | (503) | - | (496) | (496) | (161) |
| Sale of put options | 2,512 | (56) | - | (46) | (46) | (491) |
| b) Standard options: | | | | | | |
| Purchase of call options | 157,750 | 5,614 | 7,566 | - | 7,566 | 4,678 |
| Purchase of put options | 471,631 | 4,582 | 3,778 | - | 3,778 | 1,818 |
| Sale of call options | 245,982 | (7,041) | - | (5,691) | (5,691) | (4,657) |
| Sale of put options | 415,125 | (1,780) | - | (1,147) | (1,147) | (1,510) |
| | 1,336,193 | 992 | 11,347 | (7,380) | 3,967 | 609 |
| II) Trading place: | | | | | | |
| a) Flexible options: | | | | | | |
| OTC | 45,705 | (383) | 3 | (542) | (539) | 280 |
| b) Standard options: | | | | | | |
| Stock exchange | 1,290,488 | 1,375 | 11,344 | (6,838) | 4,506 | 329 |
| | 1,336,193 | 992 | 11,347 | (7,380) | 3,967 | 609 |
| III) Maturity: | | | | | | |
| a) Flexible options: | | | | | | |
| Within 90 days | 41,626 | (126) | 3 | (328) | (325) | (114) |
| From 91 to 365 days | 1,392 | (38) | - | (30) | (30) | 394 |
| Over 365 days | 2,687 | (219) | - | (184) | (184) | - |
| b) Standard options: | | | | | | |
| Within 90 days | 1,265,738 | 1,340 | 11,337 | (6,838) | 4,499 | 69 |
| From 91 to 365 days | 24,750 | 35 | 7 | - | 7 | 260 |
| | 1,336,193 | 992 | 11,347 | (7,380) | 3,967 | 609 |

(In thousands of reais)

## 5. Derivative financial instruments (Continued)

Assessment and measurement criteria (Continued)

d) *The NDF contract portfolio traded at CETIP is summarized as follows:*

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | | Market value | | | |
| | Notional value | Amounts receivable | Amounts payable | Net position | Net position |
| I) Type: | | | | | |
| *a) Currencies:* | | | | | |
| Purchase | **1,555,181** | **75,032** | **(12,829)** | **62,203** | (94,839) |
| Sale | **221,788** | **4,859** | **(2,103)** | **2,756** | 14,931 |
| *b) Commodities:* | | | | | |
| Purchase | **29,988** | **828** | **(562)** | **266** | 2,975 |
| Sale | **29,172** | **536** | **(811)** | **(275)** | (2,951) |
| | **1,836,129** | **81,255** | **(16,305)** | **64,950** | (79,884) |
| II) Trading place: | | | | | |
| OTC | **1,836,129** | **81,255** | **(16,305)** | **64,950** | (79,884) |
| | **1,836,129** | **81,255** | **(16,305)** | **64,950** | (79,884) |
| III) Maturity: | | | | | |
| Within 90 days | **894,587** | **32,926** | **(9,578)** | **23,348** | (31,613) |
| From 91 to 365 days | **848,559** | **40,262** | **(6,408)** | **33,854** | (46,125) |
| Over 365 days | **92,983** | **8,067** | **(319)** | **7,748** | (2,146) |
| | **1,836,129** | **81,255** | **(16,305)** | **64,950** | (79,884) |

e) *The futures contracts portfolio – BM&FBOVESPA (reference values) is summarized as follows:*

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Long position | Short position | Long position | Short position |
| I) Type: | | | | |
| Future – DI | **1,726,687** | **1,844,502** | 1,468,826 | 481,741 |
| Future – DDI | **969,830** | **542,381** | 1,384,335 | 1,197,662 |
| Future – DOL | **431,542** | **467,520** | 656,683 | 1,105,240 |
| Future – COMMODITIES | **139** | **5,012** | - | 71,567 |
| | **3,128,198** | **2,859,415** | 3,509,844 | 2,856,210 |
| II) Maturity: | | | | |
| Within 90 days | **788,685** | **975,170** | 1,426,970 | 1,414,576 |
| From 91 to 365 days | **570,332** | **1,333,024** | 1,062,971 | 355,060 |
| Over 365 days | **1,769,181** | **551,221** | 1,019,903 | 1,086,574 |
| | **3,128,198** | **2,859,415** | 3,509,844 | 2,856,210 |

(In thousands of reais)

## 5. Derivative financial instruments (Continued)

Assessment and measurement criteria (Continued)

f) *In order to hedge the funds raised under Borrowings and On-lending, the Bank entered into derivative financial instruments (futures DDI contracts) classified as hedge accounting, measured under the terms of BACEN Circular No. 3082/2002, as follows:*

| | 2012 | 2011 |
|---|---|---|
| Hedged items | | |
| Amount restated under agreed-upon conditions | **405,149** | 350,504 |
| Market value | **426,320** | 366,511 |
| Adjustment value | **21,171** | 16,007 |
| Hedge instruments | | |
| Market value | **431,892** | 370,052 |

g) *Federal Government bonds are given as guarantees to the stock exchange and OTC transactions, as follows:*

| | 2012 | 2011 |
|---|---|---|
| Securing stock exchange transactions | | |
| Government bonds | | |
| National Treasury Bills (LTN) | **-** | 62,961 |
| National Treasury Notes (NTN) | **155,608** | 107,963 |
| Securing OTC transactions | | |
| Government bonds | | |
| National Treasury Bills (LTN) | **-** | 76,262 |
| National Treasury Notes (NTN) | **19,351** | 1,907 |
| | **174,959** | 249,093 |

For the six-month period ended June 30, 2012, operations with derivative financial instruments resulted in gains in the amount of R$ 1,605,528 (2011 – R$ 1,077,829) and losses in the amount of R$ 1,560,038 (2011 – R$ 1,251,397), posted directly to P&L for the year under Interest income on derivative financial instrument s.

(In thousands of reais)

## 6. Loans

Loans are as follows:

| | 2012 | | | | | | 2011 |
|---|---|---|---|---|---|---|---|
| **Product** | **Rural** | **Manufacturing** | **Trade** | **Individual** | **Other services** | **Total** | **Total** |
| External on-lending fund | **1,899,342** | **-** | **-** | **584,138** | **-** | **2,483,480** | 1,561,316 |
| Advances on foreign exchange contracts (Note 7)* | **23,814** | **790,556** | **336,770** | **-** | **-** | **1,151,140** | 456,515 |
| Export financing | **214,525** | **717,506** | **30,169** | **1,393** | **-** | **963,593** | 254,956 |
| Finame | **326,244** | **12,355** | **-** | **9,531** | **5,611** | **353,741** | 246,637 |
| Working capital | **125,116** | **42,215** | **16,452** | **51,242** | **8,813** | **243,838** | 278,122 |
| Agribusiness credit right certificates | **-** | **218,047** | **-** | **-** | **-** | **218,047** | 171,015 |
| BNDES | **52,964** | **72,116** | **1,412** | **896** | **4,222** | **131,610** | 123,064 |
| Compror | **-** | **11,998** | **52,947** | **25,471** | **-** | **90,416** | 80,846 |
| Funcafé | **87,471** | **-** | **-** | **-** | **-** | **87,471** | 55,685 |
| Overdraft facilities | **1,254** | **-** | **-** | **-** | **-** | **1,254** | - |
| Other receivables | **-** | **-** | **-** | **-** | **-** | **-** | 5,876 |
| | 2,730,730 | 1,864,793 | 437,750 | 672,671 | 18,646 | 5,724,590 | 3,234,032 |

* This includes Income receivable from advances granted.

### a) Loans mature as follows

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | **Loans** | **Other receivables** | **Total** | **Total** |
| Falling due | | | | |
| Within 90 days | **728,609** | **383,175** | **1,111,784** | 587,898 |
| From 90 to 365 days | **1,473,388** | **767,965** | **2,241,353** | 1,302,173 |
| Over 365 days | **2,349,169** | **-** | **2,349,169** | 1,305,639 |
| | **4,551,166** | **1,151,140** | **5,702,306** | 3,195,710 |
| Overdue | | | | |
| 15 days or more | **22,284** | **-** | **22,284** | 38,322 |
| | **22,284** | **-** | **22,284** | 38,322 |
| | **4,573,450** | **1,151,140** | **5,724,590** | 3,234,032 |

(In thousands of reais)

## 6. **Loans** (Continued)

b) Loans by risk level and allowance set up are summarized as follows:

| | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| **Risk level** | **% minimum** | **Total portfolio** | **Allowance** | **Total portfolio** | **Allowance** |
| **AA** | **-** | **1,024,554** | **-** | 323,878 | - |
| **A** | **0.5** | **1,626,679** | **8,133** | 758,793 | 3,794 |
| **B** | **1.0** | **2,818,020** | **28,180** | 1,890,070 | 18,901 |
| **C** | **3.0** | **115,104** | **3,453** | 149,793 | 4,494 |
| **D** | **10.0** | **52,796** | **5,280** | 31,473 | 3,147 |
| **E** | **30.0** | **5,234** | **1,570** | 1,357 | 407 |
| **F** | **50.0** | **33,758** | **16,879** | 27,732 | 13,866 |
| **G** | **70.0** | **8,384** | **5,869** | 2,156 | 1,509 |
| **H** | **100.0** | **40,061** | **40,061** | 48,780 | 48,780 |
| | | **5,724,590** | **109,425** | 3,234,032 | 94,898 |

c) Changes in allowance for loan losses are as follows:

| | 2012 | 2011 |
|---|---|---|
| Opening balance | **101,518** | 82,380 |
| Setting up | **17,006** | 26,084 |
| Write-offs to loss | **(9,149)** | (13,520) |
| Foreign exchange variation of branch abroad | **50** | (46) |
| **Closing balance** | **109,425** | 94,898 |
| | | |
| Recovery of loans written off to loss | **16,484** | 19,195 |
| Loan renegotiation | **30,142** | 101,124 |

The amount of R$ 2,942,892 (2011 – R$ 1,834,284) for loans is linked to Agribusiness Credit Bills (LCA) issued. Banking Credit Bills (CCB) representing these loans are duly registered with CETIP of Brazilian Mercantile Stock Exchange (BBM).

(In thousands of reais)

## 7. Foreign exchange portfolio

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Unsettled foreign exchange purchase | **1,921,034** | **-** | 1,289,529 | - |
| Unsettled foreign exchange sale | **-** | **272,603** | - | 201,093 |
| Rights on foreign exchange sales | **272,463** | **-** | 202,993 | - |
| Foreign exchange purchase payable | **-** | **1,790,570** | - | 1,342,780 |
| Advances on foreign exchange contracts | **(201)** | **-** | - | - |
| Income receivable from advances granted | **16,724** | **-** | 5,466 | - |
| Advances on foreign exchange contracts | **-** | **(1,134,416)** | - | (451,049) |
| | **2,210,020** | **928,757** | 1,497,988 | 1,092,824 |

## 8. Other receivables - Sundry

| | 2012 | 2011 |
|---|---|---|
| Deferred tax assets (Note 9 (c)) | **73,511** | 73,585 |
| Other loan-like receivables | **-** | 5,876 |
| Taxes and contributions recoverable | **13,881** | 7,921 |
| Other | **6,794** | 6,993 |
| | **94,186** | 94,375 |

## 9. Income and social contribution taxes

### a) Statement of income and social contribution tax calculation

| | 2012 | 2011 |
|---|---|---|
| Net income before income taxes, less deductible profit sharing | **165,373** | 86,077 |
| Income and social contributions taxes at the rates of 25% and 15%, respectively | **(66,149)** | (34,431) |
| Effect of additions and exclusions from tax base: | | |
| on non-deductible expenses, net of non-taxable profit | **(894)** | (1,590) |
| on non-deductible interests/on-lending from related parties | **(2,737)** | - |
| on other amounts | **1,380** | (1,053) |
| Income and social contribution tax results | **(68,400)** | (37,074) |

(In thousands of reais)

## 9. Income and social contribution taxes (Continued)

b) Changes in deferred tax assets

| | 2012 | 2011 |
|---|---|---|
| Opening balance | **73,806** | 82,092 |
| (Reversal): | | |
| against P&L for the period | **(295)** | (8,507) |
| Closing balance | **73,511** | 73,585 |

c) Breakdown of deferred tax assets

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Income tax | Social contribution tax | Total | Total |
| Temporary differences: | | | | |
| Allowance for loan losses | **39,623** | **23,774** | **63,397** | 57,763 |
| Provision for bonus/Profit Sharing payment | **4,821** | **3,736** | **8,557** | 3,081 |
| Provision for contingent liabilities | **798** | **479** | **1,277** | 2,695 |
| Provision for impairment | **-** | **-** | **-** | 1,016 |
| Market value adjustment (TVM), derivative financial instruments and hedged items | **175** | **105** | **280** | 9,030 |
| **Total tax credits** | **45,417** | **28,094** | **73,511** | 73,585 |

These amounts are recorded under Other receivables – sundry.

d) Expected deferred tax assets realization as of June 30, 2012

| Year | Deferred income tax | Deferred social contribution tax | Total |
|---|---|---|---|
| 2012 | 1,916 | 1,149 | 3,065 |
| 2013 | 24,292 | 15,419 | 39,711 |
| 2014 | 5,697 | 3,419 | 9,116 |
| 2015 | 2,908 | 1,745 | 4,653 |
| 2016 | 3,645 | 2,187 | 5,832 |
| 2017 | 1,521 | 912 | 2,433 |
| 2018 | 5,438 | 3,263 | 8,701 |
| | **45,417** | **28,094** | **73,511** |

The present value of deferred tax assets is R$ 65,090 (2011 - R$ 67,376).

(In thousands of reais)

## 9. Income and social contribution taxes (Continued)

d) Expected deferred tax asset realization as of June 30, 2012 (Continued)

In 2012, the Bank has deferred tax obligations in the amount of R$ 5,790 (2011 – R$ 6,407) as regards income and social contribution taxes on market value adjustments of marketable securities available for sale, as well as on earnings from Cayman Branch.  Present value of deferred tax obligations amounts to R$ 5,524 (2011 – R$ 6,246).

There are non-activated deferred tax asset on provisions for contingencies in 2012 (2011 - R$ 431).

In order to calculate present value of deferred tax obligations and deferred tax asset, market fixed income curves were used.

## 10. Branches abroad

Transactions carried out by a branch abroad (Cayman) are translated at the foreign exchange rate as of the balance sheet date. Summary of balances is as follows:

| Accounts | 2012 | 2011 |
|---|---|---|
| Current and non-current assets | **103,218** | 78,169 |
| Current and non-current liabilities | **98,712** | 67,405 |
| Net income for the six-month period | **3,519** | 2,488 |

## 11. Borrowings and on-lending

Borrowings abroad refer to export and import financing lines, with banks abroad, maturing through December 31, 2014, and interest rates ranging from 0.27% to 4.27% p.a., plus foreign exchange variation.

On-lending abroad refers to outside loans taken out in US dollar, based on CMN and BACEN regulation. Interest rates and charges of funds raised with related parties range from 1.11% to 7.50% p.a., plus foreign exchange variation, maturing through November 25, 2019. Interest rates and charges of funds raised with unrelated parties are 5.20% to 5.35% p.a., plus foreign exchange variation, maturing through January 6, 2015, and Libor interest rate plus foreign exchange variation, maturing on December 15, 2012.

(In thousands of reais)

## 11. Borrowings and on-lending (Continued)

Some borrowings and on-lending abroad were considered as derivative financial instrument hedge, as stated in Note 5 (derivative financial instruments for hedge purposes).

Local on-lending refers to funds raised with Government Agency for Machinery and Equipment Financing (FINAME), intended to agribusiness and investment financing, maturing through July 15, 2022, as well as funds from National Bank for Economic and Social Development (BNDES) “Venture Financing” program, whose amortization finishes on September 16, 2019, and funds from Ministry of Agriculture, Livestock and Supply "Funcafé" program, whose amortization finishes on December 31, 2013 for Fixed Income Funcafé Pré, and July 31, 2012 for Funcafé Selic.

Maturity of borrowings and on-lending as of June 30, 2012 is as follows:

| | 2012 | | | | | | 2011 |
|---|---|---|---|---|---|---|---|
| | Up to 3 months | From 3 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 15 years | Total | Total |
| Borrowings | | | | | | | |
| Abroad | 1,008,616 | 1,172,678 | 44,943 | - | - | 2,226,237 | 1,273,290 |
| On-lending | | | | | | | |
| Local | 35,290 | 138,111 | 182,110 | 139,204 | 61,428 | 556,143 | 399,914 |
| Abroad | 186,851 | 595,452 | 1,954,205 | 444,832 | 204,714 | 3,386,054 | 2,648,046 |
| | 1,230,757 | 1,906,241 | 2,181,258 | 584,036 | 266,142 | 6,168,434 | 4,321,250 |

## 12. Contingent assets and liabilities and legal, tax and social security obligations

a) Contingent assets: There are no contingent assets recorded.

b) Contingent liabilities classified as “possible loss”: the Bank is a party to claims whose likelihood of an unfavorable outcome is rated as possible by management and its legal counsel. No related provisions have been set up. Major claims are:

- Administrative proceeding challenging of Brazilian IRS tax notice claiming payment of R$ 11,171 for Withholding Income Tax as the responsible payer.
- Labor claim filed by a former employee of an outsourced company, in the amount of R$ 89.

(In thousands of reais)

## 12. Contingent assets and liabilities and legal, tax and social security obligations (Continued)

- Administrative proceedings challenging three Brazilian IRS tax notices claiming payment of R$ 2,359 for Social Security Contribution Tax (INSS), Work Accident Insurance (SAT), Education Allowance, Brazilian Institute of Land Reform (Incra) and FGTS Payment and Social Security Information Form (GFIP) Accessory Obligations.
- Administrative proceeding challenging Brazilian IRS tax notice claiming payment of R$ 968 for IRPJ and CSLL on allegedly gains on IPO of BM&FBOVESPA.
- Legal proceeding requiring the suspension of incorrect billing of telephone calls with Embratel in the amount of R$ 127.

c) Contingent liabilities classified as “probable loss”, and legal obligations: the Bank set up a provision for contingent liabilities and tax risks to cover probable losses and legal obligations in a amount deemed sufficient by management, according to legal counsel assessment and advice, as follows:

| | Balance at 12/31/2011 | (Reversal) | Monetary restatement | Balance at 6/30/2012 | Balance at 6/30/2011 |
|---|---|---|---|---|---|
| Provision for tax risks | | | | | |
| FGTS | **2,238** | **(60)** | **7** | **2,185** | 855 |
| Civil provision | **298** | **(55)** | **14** | **257** | 222 |
| Labor provision | **699** | **(555)** | **22** | **166** | - |
| | **3,235** | **(670)** | **43** | **2,608** | 1,077 |

## 13. Subordinated debts

These refer to loans taken out from third-parties as "Subordinated Debts", pursuant to CMN Resolution Nº. 3444/2007. Such loan is in reais and was taken out August 14, 2008, maturing on July 15, 2016, and bearing interest at the rate of 11.20% p.a.

(In thousands of reais)

## 14. Other liabilities - sundry

| | 2012 | 2011 |
|---|---|---|
| Provision for bonuses and profit sharing | **22,119** | 7,704 |
| Other personnel expenses payable | **9,263** | 14,243 |
| Trade accounts payable | **2,048** | 1,660 |
| Other administrative provisions | **584** | 329 |
| Provision for legal claims (Note 12 (c)) | **423** | 222 |
| Sundry | **1,038** | 4,797 |
| | **35,475** | 28,955 |

## 15. Equity

a) Capital

At June 30, 2012, fully subscribed and paid-in capital is divided into 552,202,423 (2011 – 425,268,759) common registered shares, with no par value, distributed as follows:

| | 2012 | 2011 |
|---|---|---|
| Rabobank International Holding B.V. | **552,200,680** | 425,267,406 |
| Rabobank Curaçao N.V. | **1,743** | 1,353 |
| | **552,202,423** | 425,268,759 |

The Special Shareholders' Meeting (AGE) held on January 26, 2012 approved capital increase in the amount of R$ 98,994. Consequently, capital increased from R$ 476,471 to R$ 575,465, which resulted in issuance of 94,992,661 common shares with no par value, maintaining former proportional shareholding structure, which was approved by BACEN on February 28, 2012.

b) Income reserve – Legal:

Income Reserve was set up in the amount of 5% of net income before any other allocation, up to the limit provided for by law.

c) Income reserve – Statutory:

The statutory reserve balance is equivalent to, up to 70% (seventy per cent) of the Company's capital and is defined by the Annual Shareholder's Meeting.

d) Minimum mandatory dividend:

The Bank by-laws provides for the setting of a provision for payment of minimum mandatory dividends amounting to 25% of net income for the year. The Annual Shareholders' Meeting decided, however, that this provision may be disregarded and the corresponding amount may have another destination.

(In thousands of reais)

## 16. Related parties

Related-party transactions are carried out under normal market rates and conditions in force on transaction date, pursuant to CMN Resolution Nº. 3750/2009.

a) Management fees

| | 2012 | 2011 |
|---|---|---|
| Management fees | **3,303** | 2,672 |
| Bonuses | **2,830** | 4,256 |
| Supplementary private pension plans | **164** | 765 |

b) Related-party transactions

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Assets/ (liabilities) | Revenues/ (expenses) | Assets/ (liabilities) | Revenues/ (expenses) |
| Foreign currency deposits | | | | |
| Rabobank Nederlands | **356** | **-** | 7 | - |
| Open market investments | | | | |
| Banco de Lage Landen Brasil S.A. | **-** | **-** | 121,673 | 3,474 |
| Investments in interbank deposits | | | | |
| Banco de Lage Landen Brasil S.A. | **2,665** | **2,430** | 51,651 | 6,059 |
| Foreign currency investments | | | | |
| Rabobank Nederlands –NY branch | **20,207** | **(6,663)** | - | 4,735 |
| Foreign exchange portfolio | | | | |
| Rabobank Nederlands | **1,777** | **1,905** | (2,226) | (6,269) |
| Other receivables - (commissions receivables) | | | | |
| Rabobank Curaçao N.V. | **-** | **8,577** | - | 5,451 |
| São Paulo Partners, LLC | **-** | **2,078** | - | 1,435 |
| Interbank deposits | | | | |
| Banco de Lage Landen Brasil S.A. | **(286,507)** | **(9,791)** | (82,106) | (1,381) |
| Open market funding | | | | |
| Banco de Lage Landen Brasil S.A. | **-** | **(269)** | (20,132) | (4,372) |
| Derivative financial instruments | | | | |
| Banco de Lage Landen Brasil S.A. | **(19,400)** | **(12,695)** | 7,153 | 8,410 |
| Banco Cooperativo Sicredi S.A. | **99** | **99** | - | - |
| Borrowings and on-lending abroad | | | | |
| São Paulo Partners, LLC | **(2,965,080)** | **(251,179)** | (1,727,689) | 100,542 |
| Rabobank Nederlands – NY branch | **(1,282,721)** | **(56,109)** | (469,170) | 6,447 |
| Rabobank Curaçao N.V. | **(942,190)** | **(92,818)** | (877,667) | 36,372 |
| Tullaghought Company | **-** | **915** | (37,597) | 1,061 |
| Rabobank Nederlands | **-** | **-** | (470,258) | 66,693 |
| Other liabilities – (commissions payable) | | | | |
| Banco Cooperativo Sicredi S.A. | **91** | **91** | - | - |
| Banco de Lage Landen Brasil S.A. | **(2)** | **(12)** | (2) | (12) |

(In thousands of reais)

## 17. Revenue from services rendered

| | 2012 | 2011 |
|---|---|---|
| Commissioning received for advisory and transaction structuring services | **11,677** | 11,410 |
| Business brokerage services | **10,655** | 6,886 |
| Other services rendered and bank fees | **2,902** | 2,079 |
| | **25,234** | 20,375 |

## 18. Other administrative expenses

| | 2012 | 2011 |
|---|---|---|
| Data processing | **7,014** | 4,000 |
| Financial system services | **4,337** | 1,504 |
| Third-party services | **4,251** | 3,570 |
| Rentals and leases | **3,782** | 3,707 |
| Maintenance of assets | **3,308** | 661 |
| Depreciation and amortization | **2,379** | 1,800 |
| Travel | **2,253** | 1,752 |
| Communication | **1,906** | 1,945 |
| Advertising, promotion and publicity | **934** | 1,035 |
| Condo fees | **782** | 580 |
| Transportation | **524** | 507 |
| Water and energy | **273** | 221 |
| Materials | **195** | 203 |
| Other administrative expenses | **1,573** | 1,954 |
| | **33,511** | 23,439 |

## 19. Cash and cash equivalents

Cash and cash equivalents used when preparing the Cash Flow Statements are as follows:

| | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents in local currency | **1,010** | 686 |
| Cash and banks in foreign currency | **24,644** | 248,929 |
| Total cash and cash equivalents | **25,654** | 249,615 |
| Open market investments | **3,519,145** | 1,539,262 |
| Interbank deposits | **2,665** | 51,651 |
| Foreign currency investments | **20,207** | - |
| Total cash and cash equivalents | **3,567,671** | 1,840,528 |

## 20. Other matters

a) Guarantees given by third parties, including collaterals, surety bonds and other co-liabilities, amount to R$ 32,515 (2011 – R$ 11,541), and guarantees received total R$ 81,934 (2011 – R$ 90,450).

b) The Bank computes its minimum equity limits within parameters established by CMN Resolutions No. 2099/1994, No. 3444/2007 and No. 3490/2007, and supplementary standards. Positive margin between effective reference equity and minimum capital requirements is R$ 216,555 (2011 – R$ 273,145), whereas Basel index is of 13.34% (2011 – 14.96%).

c) The Bank sponsors a supplementary private pension plan to its employees and management members, which ensures that funds are accumulated over their professional career. Both the Bank and participants contribute to such plan. Matching contribution amounted to R$ 4,994 (2011 – R$ 4,516). The supplementary private pension plan is a defined contribution type plan.

d) No share-based payments are made by the Bank to its employees.

EXECUTIVE MANAGEMENT

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