

GLOSSARY

Financial System Credit Operations and Monetary Policy

I – FINANCIAL SYSTEM CREDIT OPERATIONS

Basic Definitions

New operations: Disbursements of loans and financing effectively credited to the borrower. Values correspond to lending granted in the reference month.

Credit/GDP ratio: Ratio between the balance of credit operations and the cumulative GDP at current values over the last 12-month period.

Nonperforming loans: Total credit operations in arrears of more than 90 days not written off as a loss, divided by the total balance of the credit portfolio.

Public financial institutions: Institutions in which the federal, state or municipal government holds more than 50% of the voting capital (Circular Letter no. 2,345, dated January 25, 1993).

National private financial institutions: Institutions controlled by individuals or legal persons domiciled and resident in the country holding more than 50% of the voting capital (Circular Letter no. 2,345, dated January 25, 1993).

Foreign financial institutions: Institutions in which more than 50% of the voting capital are directly or indirectly held by foreigners. It also includes institutions established or headquartered abroad with agencies or branches in the country (Circular Letter no. 2,345, dated January 25, 1993).

Average term of new operations: Average time (number of effective days between the lending day and the date of the last installment, divided by 30), weighted by the values of new operations. Average terms of aggregate segments are calculated by weighting the average term of each credit modality by the average balance of the respective portfolio.

Average term of outstanding credit: Average term of each payment (in months), weighted by its respective value. In the case of credit operations overdue, only portfolios in arrears until 90 days are taken into account, for which the term utilized in the calculation is 1 (one) day.

Balance of the credit portfolio: It corresponds to the sum of outstanding credit balances at the end of the month. It includes new operations granted in the month and pro-rata accruing of interest on loans and financing.

Company size: The classification is based on annual gross revenue as available on Document 3040 (Credit Risk Data): Micro, Small and Medium Enterprises (MSME) - annual gross

revenue up to R\$300 million or total assets up to R\$240 million; Corporate companies – annual gross revenue over R\$300 million or total assets over R\$240 million.

Risk Level Balance: Percentage of non-financial companies' segment outstanding balance classified by risk levels E, F, G and H (Resolution no. 2.682, of December, 21st, 1999).

Average spread: It refers to the difference between the average lending interest rate and the estimated funding interest rate of each credit modality.

Average interest rates: Average interest rates of new operations, weighted by their respective disbursed values. Average interest rates of aggregate segments (total, corporations and households, earmarked and non earmarked) are calculated on the basis of average interest rates of each modality, weighted by the average balances of their respective portfolios.

Funding interest rates: In the calculation of funding interest rates, it is used the reference rate – related to DI x pre swap contracts with term of 252 days, released by the BM&FBovespa – corresponding to the respective average lending term of each modality for fixed-rate or variable operations indexed to floating interest rates. As for the contracts indexed to the TR, TJLP or in foreign currency, the cost parameter for the funding interest rate is based on, respectively, the annualized average monthly index of savings accounts yield, the TJLP as released by the CMN in the reference month, and the 6-month U.S. Libor plus the exchange variation according to the USD x Pre reference rate as released by the BMF&Bovespa, corresponding to the average lending term of each modality.

Average cost of outstanding loans – ICC: Average cost of credit operations that make up the portfolio of loans, financing and leasing operations of financial institutions belonging to the National Financial System. It includes the totality of outstanding operations classified as current assets, regardless of the date of the credit lending.

Nonearmarked credit operations

They correspond to loans and financing contracts agreed with interest rates freely negotiated between financial institutions and borrowers. Regarding nonearmarked resources, financial institutions are autonomous for carrying out lending operations.

Classification by credit modalities:

Advance on exchange contracts (ACC): Partial or total advance of revenues on export contracts for financing the production of respective goods to be exported. They include advance on delivered exchange operations (ACE).

Discount of credit card invoices: Credit operations in which companies receive resources in advance on the basis of their future cash flows composed of receivables represented by credit card invoices.

Vehicles leasing: Financial leasing operation in which the lessor (financial institution) grants to the lessee the utilization of an automotive vehicle, which is the object of the leasing operation, with a purchase option at the end of the contract.

Other goods leasing: Financial leasing operation in which the lessor grants to the lessee the utilization of an asset, excluding automotive vehicle, which is the object of the leasing operation, with a purchase option at the end of the contract.

Vehicles financing (household): Lending to individuals for the purchase of automotive vehicles. The borrower (individual) grants the lender (financial institution) a lien on the automotive vehicle property as collateral (conditional sale agreement).

Vehicles financing (corporations): Lending operations for the purchase of automotive vehicles to be utilized in the maintenance or expansion of output capacity of the borrower (company), classified as investment. The borrower (company) grants the lender (financial institution) a lien on the automotive vehicle property as collateral (conditional sale agreement).

Other goods financing (households): Credit operations granted to individuals for the purchase of goods and services, except automotive vehicles.

Other goods financing (corporations): Financing of machinery and equipment, except automotive vehicles, or other assets to be employed in productive activities by borrowing companies, classified as investment.

Working capital up to 365 days: Short-term credit operations for financing companies regulated by a specific contract stipulating terms, rates and collaterals with terms up to 365 days.

Working capital over 365 days: Medium and long-term credit operations for financing a company's operational activities, regulated by a specific contract stipulating terms, rates and collaterals with terms higher than 365 days.

Working capital – revolving: Revolving credit lines granted for financing the working capital of companies.

Credit card – non-financing: Interest free transactions, associated with an installment plan or not.

Credit card – financing: It comprises installments referring to single credit card purchases or the monthly sum of credit card invoices, both with interest owed. It also includes cash withdrawals through the credit option to be paid in installments.

Credit card – revolving: Operations for financing the outstanding credit card balance that remains after a partial monthly payment. It also includes cash withdrawals through the credit option.

Overdraft (households): Credit operations available through the bank account of individuals, in which a certain limited amount of funds may be automatically utilized at the discretion of the accountholder. It also includes advance of funds to accountholders and households' guaranteed overdraft account.

Overdraft (corporations): Credit operations available through the bank account of companies, in which a certain limited amount of funds may be utilized at the discretion of the accountholder. Debt balances are automatically amortized by means of current account deposits. It also includes advance of funds to companies.

Compror: Credit operations for financing purchases (of goods and services) carried out by companies. Purchases are immediately paid by the financial institution to the suppliers through cash payments. It also includes Floor Plan operations.

Guaranteed overdraft account: Credit operations available through the bank account of companies, in which a certain limited amount of funds may be utilized at the discretion of the accountholder. Debt balances are automatically amortized by means of current account deposits. This modality differs from the overdraft account in terms of required collaterals.

Personal credit: Credit operations with households not associated with the purchase of goods and services. Resources may be utilized at the discretion of the borrower.

Payroll-deducted personal loans: Personal credit operations deducted from payroll.

- **Payroll-deducted loans for public sector employees:** Personal payroll-deducted loans for federal, state or municipal public sector employees, active or retired.

- **Payroll-deducted loans for private sector employees:** Personal payroll-deducted loans for private sector workers.

- **Payroll-deducted loans for INSS retirees and pensioners:** Personal payroll-deducted loans for retirees and pensioners of the National Social Security Institute (INSS).

- Personal credit excluding payroll-deducted: Personal credit operations not deducted from payroll.

Personal credit excluding payroll-deducted loans related to debt renegotiation: Credit operations granted to households related to the composition of overdue outstanding debts of distinct modalities.

Discount of checks: Advance of funds to companies in exchange for checks, which are delivered for the custody of the financial institution.

Discount of trade bills: Advance of funds for companies in exchange for future payments of trade bills and other receivables (except checks and credit card invoices).

Exports financing: Financing for the production of goods and services to be exported, excluding ACC and ACE.

Imports financing: Financing for the purchase of goods and services abroad through foreign credit lines.

Foreign on lending: Financing granted to companies headquartered in the country through foreign credit lines.

Vendor: Sales financing operation based on the principle of credit assignment, enabling a company (supplier/seller) to sell its product at a term and receive immediate payment by the financial institution. The buyer company commits itself to carry out the payment of installments to the financial institution in order to settle the operation. In general, the financial institution owns the credit rights of the selling company, which assumes the risk of the operation.

Other nonearmarked credits: Nonearmarked credit operations not included in the aforementioned modalities, such as discount of promissory notes, collateral, composition of debts related to corporate credit operations etc.

Earmarked Credit Operations

Credit operations regulated by the National Monetary Council (CMN) or earmarked to budget resources basically channeled to medium and long-term production and investment operations in the real estate, rural and infrastructure sectors. Resources represent a share of demand deposits and savings accounts, in addition to government funds and programs.

Classification by credit modalities:

Working capital with BNDES funds: It consists of working capital loans and export financing with BNDES resources, including operations through the BNDES Credit Card.

Rural credit at market rates: Rural financing granted with earmarked resources from demand deposits and rural savings accounts, agreed with interest rates freely negotiated between the financial institution and the borrower.

Rural credit at earmarked rates: Financing granted with earmarked resources from demand deposits and rural savings accounts, including lending granted with resources from constitutional funds of the North, Northeast and Central-West regions.

Real estate financing at market rates: Real estate financing operations associated with the obligatory lending of funds regulated by article 1, subparagraph I, line "b" of the regulation annexed to Resolution no. 3,932/2010, in addition to credit operations carried out with other market raised resources.

Real estate financing at earmarked rates: Housing financing operations associated with the obligatory lending of funds regulated by article 1, subparagraph I, line "a" of the regulation annexed to Resolution no. 3,932/2010, in addition to credit operations carried out with budget resources or government funds and/or programs.

Agroindustry financing with BNDES funds: Agroindustry financing of working capital or investment operations granted with BNDES resources, including operations through the BNDES Credit Card.

Investment financing with BNDES funds: Investment financing granted with BNDES resources.

Microcredit – consumer: Consumer microcredit operations granted with resources of demand deposits according to Resolution no. 4,000, dated August 25/2011.

Microcredit – micro entrepreneurs: Microcredit operations for micro entrepreneurs granted with resources of demand deposits according to Resolution no. 4,000, dated August 25/2011. Microcredit operations for companies, complying with subparagraph II of the article 2° of this Resolution, are also included in this modality.

Microcredit – payroll-deducted: Microcredit operations in which a percentage of the borrower payroll is reserved for the payment of loan installments (payroll-deducted). Resources originate in demand deposits according to Resolution no. 4,000/2011.

Other earmarked credit operations: Earmarked credit operations not included in the aforementioned credit modalities.

Credit Operations by Economic Activity Sectors

It refers to the breakdown of earmarked and non earmarked credit operations by borrowers' major economic activity sectors. The breakdown of balances by borrower relies on the National Code of Economic Activity (CNAE), available in Document 3040 of the Credit Information System (SCR). National Classification Commission (Concla) manages CNAE classification system and it is available at <http://www.cnae.ibge.gov.br/>.

Balance by economic activity sector

Agriculture and livestock: it includes the activities of growing crops, raising and breeding of animals, harvesting of timber and other plants, fishing and aquaculture. Operations in this segment comprise costing, marketing and investment modalities. This segment includes operations with the rural sector, except agroindustry activities, which are classified according to respective industrial segments.

Industry: it comprises mining, manufacturing, utilities and construction.

- **Utilities (electricity, gas and water supply):** it consists of the generation, transmission and distribution of electricity; the wholesale market of electricity; the collection, treatment and supply of water; the management of sewerage and the treatment and disposal of all types of waste materials; the cleanup of soil and other areas; and the operation of irrigation systems.

- **Construction:** it includes the construction of all types of buildings (dwellings, office buildings, stores, public buildings, utility buildings and farm buildings), the erection of house structures, repair and maintenance. It does not include infrastructure work and it includes construction intermediate goods industry.

- **Beverages and food products:** it includes the processing of the products of agriculture, livestock and fishing into food for humans or animals, and it includes production of various intermediate products that are not directly food products. It is organized by activities dealing with different kinds of products: meat, fish, milk products, fruit and vegetables, fats and oils, grain mill products, animal feeds and other food products. It also includes the manufacture of beverages, such as alcoholic beverages (through fermentation or distillation), nonalcoholic beverages and mineral water. It does not include sugar manufacturing.

- **Sugar:** it refers to manufacture or refining of sugar.

- **Textiles, wearing apparel and leather:** it includes preparation and spinning of textile fibres as well as textile weaving, finishing of textiles and wearing apparel, manufacture of made-up textile articles, except apparel (e.g. household linen, blankets, rugs, cordage etc.) and all

tailoring, in all materials (e.g. leather, fabric, knitted and crocheted fabrics etc.), of all items of clothing and accessories. It also includes dressing and dyeing of fur and the transformation of hides into leather by tanning or curing and fabricating the leather into products for final consumption. It also includes the manufacture of similar products from other materials (imitation leathers or leather substitutes), such as rubber footwear, textile luggage etc.

- **Paper and cellulose:** it includes the manufacture of pulp, paper and converted paper products. The paper articles may be printed (e.g. wallpaper, gift wrap etc.), as long as the printing of information is not the main purpose.

- **Petroleum, gas and alcohol fuel:** it refers to the transformation of crude petroleum and coal into usable products. It includes petroleum extraction and refining, as well as the manufacture of gases such as ethane, propane and butane as products of petroleum refineries. It also refers to alcohol and other biofuels manufacture.

- **Basic metals and steelmaking:** it refers to the transformation of ferrous and non-ferrous metals into metallurgic products, using electrometallurgic and other process metallurgic techniques. The output of smelting and refining, usually in ingot form, is used in rolling, drawing and extruding operations to make products such as plate, sheet, strip, bars, rods, wire, tubes, pipes and hollow profiles, and in molten form to make castings and other basic metal products.

- **Chemicals and pharmaceutical:** it refers to the transformation of organic and inorganic raw materials by a chemical process and the formation of products. It includes the production of basic chemicals that constitute the first industry group and the production of intermediate and end products produced by further processing of basic chemicals that make up the remaining industry classes. It also refers to the manufacture of basic pharmaceutical products and pharmaceutical preparations and the manufacture of medicinal chemical.

- **Capital goods:** it refers to the manufacture, installation and maintenance and repair of machinery and equipments, including computers, consumer electronics, optical instruments and equipment, electric household appliances. It includes the manufacture of transportation equipment.

- **Motor Vehicles:** it includes the manufacture of motor vehicles for transporting passengers or freight. It also includes the manufacture of various parts and accessories, bodies (coachwork) for motor vehicles, as well as the manufacture of trailers and semi-trailers.

- **Mining:** it refers to the extraction of minerals occurring naturally as solids, liquids or gases, as well as supplementary activities associated to the extraction, since they do not alter the

physical or chemical properties of minerals. It does not include extraction of crude petroleum and natural gas.

- **Infrastructure:** it includes infrastructure works (motorways, streets, bridges, tunnels, railways, subways, airfields, harbors and water supply projects, irrigation systems, sewerage systems, industrial facilities, pipelines and electric lines etc.).

- **Other consumer goods:** it includes the manufacture, installation, maintenance and repair of durable consumer goods that are not classified in the previous categories.

- **Packing of goods:** it includes basically the manufacture of containers made by paper, glass, metal and plastic.

- **Other non-durable goods:** it includes the manufacture of non-durable consumer goods that are not classified in the previous categories.

Services: it includes activities of transportation, commerce, public administration, financial service, real state sector and other services offered to individuals and companies.

- **Transportation:** it comprises the provision of passenger or freight transport by rail, road, water, air and pipeline; storage activities and postal, mailing and courier activities. It also includes support activities for transportation, such as management and operation of road, rail, harbor and air terminals and related activities. It does not include car rental activities – among others – which are classified as services rendered to households and corporations.

- **Land transport (passenger and freight):** it includes the transport of passengers and freight by road and rail.

- **Water and air transport:** it refers to the transport of passengers or freight over water and by air (regular and schedules lines). It includes tourism-only transport operations.

- **Transport via pipelines:** it includes the freight transport via pipelines.

- **Commerce:** it includes wholesale and retail sale of any type of goods without significant transformation and the rendering of services incidental to the sale of these goods, such as assembly, mixing (blending), bottling, packing, breaking bulk etc., when the commercial unit performs such activities. It also includes the maintenance and repair of automotive vehicles.

- **Retail trade – non-durable goods:** it includes the resale (sale without transformation) of new and used non-durable goods mainly for personal or household consumption or utilization, by shops, department stores, stalls, mail-order houses, hawkers and peddlers, consumer cooperatives etc. It does not include motor vehicles sales.

- **Retail trade – durable goods:** it includes the resale (sale without transformation) of new and used durable goods mainly for personal or household consumption or utilization, by

shops, department stores, stalls, mail-order houses, hawkers and peddlers, consumer cooperatives etc. It does not include motor vehicles sales.

- **Wholesale trade:** wholesale is the resale (sale without transformation) of new and used goods to retailers, business-to-business trade, such as to industrial, commercial, institutional or professional users, or resale to other wholesalers, or involves acting as an agent or broker in buying goods for, or selling goods to, such persons or companies. It does not include motor vehicles sales.

- **Motor Vehicles:** it includes all activities (except manufacture and renting) related to motor vehicles and motorcycles, including lorries and trucks, such as the wholesale and retail sale of new and second-hand vehicles, the repair and maintenance of vehicles and the wholesale and retail sale of parts and accessories for motor vehicles and motorcycles.

- **Intermediate products:** it includes all activities (except manufacture and renting) related to wholesale and retail sale of any type of intermediate goods.

- **Capital goods:** it includes all activities (except manufacture and renting) related to wholesale and retail sale of any type of capital goods, as computer, electronic and optical products, electrical equipment, machinery, equipment and other transport equipment.

- **Public administration:** it comprises public administration in general, in the executive, legislative and judicial branches of the federal, state and municipal spheres and the Federal District. It also includes compulsory social security activities.

- **Real estate activities:** it includes acting as lessors, agents and/or brokers in selling or buying real estate, renting real estate, providing other real estate services such as appraising real estate or acting as real estate escrow agents. Activities may be carried out on own or leased property. Also included is property management and malls management services.

- **Information and communication:** It includes the production and distribution of information and cultural products, the provision of the means to transmit or distribute these products, as well as data or communications, information technology activities and the processing of data and other information service activities. The main components are publishing activities, movies, motion picture and sound recording activities, radio and TV broadcasting and programming activities, telecommunications activities and information technology activities and other information service activities.

- **Other service activities to household:** It refers to education, health, housing, food and personal services, among others.

- **Other service activities to companies:** It refers to consulting, office services and administrative support, assets management, monitoring and security, among others.

- **Financial and insurance activities:** it includes financial service activities, including insurance, reinsurance and pension funding activities and activities to support financial services. It also includes the activities of holding assets, such as activities of holding companies and the activities of trusts, funds and similar financial entities. It excludes transfers between cooperative banks and their related cooperatives.

- **Other services:** it includes other services and credits that are offered to families as well as companies and that are not classified in the previous categories.

Others: it refers to enterprises with headquarters abroad and to credits not classified in the previous categories.

Balance by type of borrowers

Public Sector: it refers to credit operations contracted by the federal, state and municipal governments, comprising: direct administration, including ministries and secretariats; indirect administration (semi-autonomous agencies, foundations, institutes and other organizations maintained primarily with government budgetary resources); and corporate activities (economic units owned by governments, or controlled by governments, which operate in the production and sale of goods and services to the public, such as public enterprises and mixed economy enterprises).

Private Sector: it refers to individuals and enterprises under the control of national or foreign private capital. It also includes operations with nonresidents related to the acquisition of goods and services contracted with national enterprises headquartered abroad.

II – MONETARY POLICY

Monetary Base: They are the Central Bank's monetary liabilities, also known as primary currency issues. The concept includes total bank notes and coins in circulation and the resources of the Banking Reserve account. It reflects the net result of all Central Bank asset and liability operations.

Monetary Base (B1 Concept): it corresponds to the restricted monetary base plus additional mandatory reserves on demand deposits.

Factors conditioning the monetary base: it refers to factors that generate Central Bank currency issues or withdrawals of primary currency (monetary base). Monetary expansion – Central Bank supply of currency or credit in the Banking Reserve account – is expressed with a positive sign. In the opposite sense, monetary contraction – Central Bank withdrawal of currency or debit in the Banking Reserve account is expressed with a minus sign.

- **National Treasury Account:** it reflects inflows and outflows of National Treasury primary resources deposited at the Central Bank, excluding operations involving securities issued by the National Treasury.

- **Operations with federal public securities:** it is the net result of purchases and sales of federal public securities, including borrowed and lent Central Bank financing backed by National Treasury securities. These operations are carried out with the aim of controlling liquidity, regulating short-term interest rates and rolling over the federal public debt.

- **Foreign sector operations:** they basically refer to Central Bank purchases and sales of foreign currency, generating exports, imports, revenues and expenditures on services and inflows and outflows of financial resources related to investments and redemptions of foreigners' investments in the financial and capital markets, as well as the earnings on these operations.

- **Central Bank rediscount:** it is the last resort loans granted by the Central Bank through the purchase with resale agreement of securities, credits and receivables-backed securities that compose of the assets of financial institutions (multiple banks with commercial portfolio, commercial banks and savings banks).

- **Financial institutions deposits:** it is the monetary reserve movements between the Central Bank and the financial system related to reserve requirements and liquidity financial assistance.

- **Operations with derivatives – adjustment:** it represents the cumulative monthly flow of daily financial settlement of the difference between the Central Bank's short and long positions in contracts with derivatives carried out on the domestic market.

- **Other accounts:** it includes the settlement of operations carried out by financial institutions not holding the Banking Reserves account, credits receivable of the Department of Bank Liquidation (Deliq), expenses of the Currency Management Department (Mecir), office material, payroll, deposits for constitution and increase of capital, penalties and costs on insufficient banking reserve and other accounts.

Money Supply – restricted currency concept (M1): it corresponds to the volume of resources readily available for the payment of goods and services. M1 encompasses currency held by the public and demand deposits.

Broad Money Supply: it is the broad money supply concept defined on the basis of their issuing systems criteria. M2 corresponds to M1 plus high liquidity issues performed primarily on the domestic market by deposit money institutions. M3 consists of M2 plus fixed-income fund quotas and the portfolio of securities registered in the Selic. M4 includes M3 plus high liquidity public securities.

Compulsory reserves of financial institutions: it refers to mandatory financial institutions' deposits (in cash and/or public securities) at the Central Bank, classified into interest-bearing and non interest-bearing deposits. Reserves "in securities" correspond to the values of federal public securities that were earmarked in the Selic.

Currency issued: it refers to the totality of monetary units outside the Central Bank.

Bank reserves: they correspond to voluntary and compulsory cash reserves deposited at the Central Bank by money-creating banks.