

Brazil

Economic and Financial Sector Overview

August 2011

Index

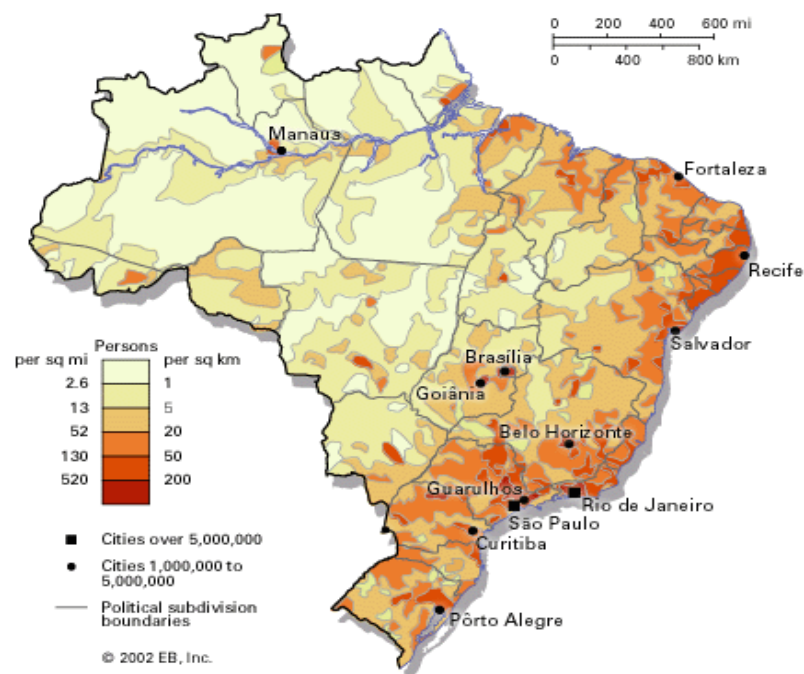
- General Overview – Demographics, Macroeconomic Policy and Social Development
- Recent Economic Indicators
- The National Financial System
- Prudential Regulation and Supervision
- Access to Banking Services
- Competition in the Banking Sector

General Overview

Demographics
Macroeconomic Policy
Social Development

Brazil Demographics

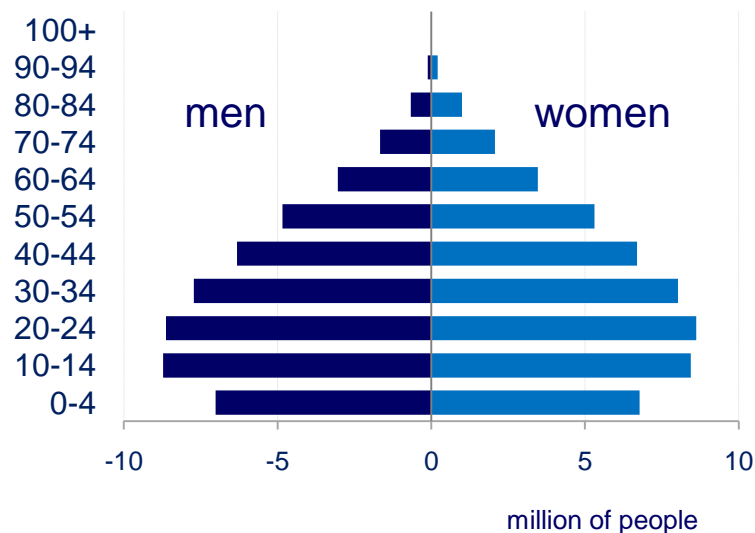
- Brazil is among the largest countries in terms of territory, population and GDP.
- Brazil has vast natural resources, including recently discovered large offshore oil fields, a diverse industrial base, a dynamic and sophisticated private sector, and a well-structured public sector.
- Brazil is a vigorous democracy, with free multiparty elections and a stable political system.
- Brazil has good relations with all its neighbors and has increased its ties with all regions of the world.



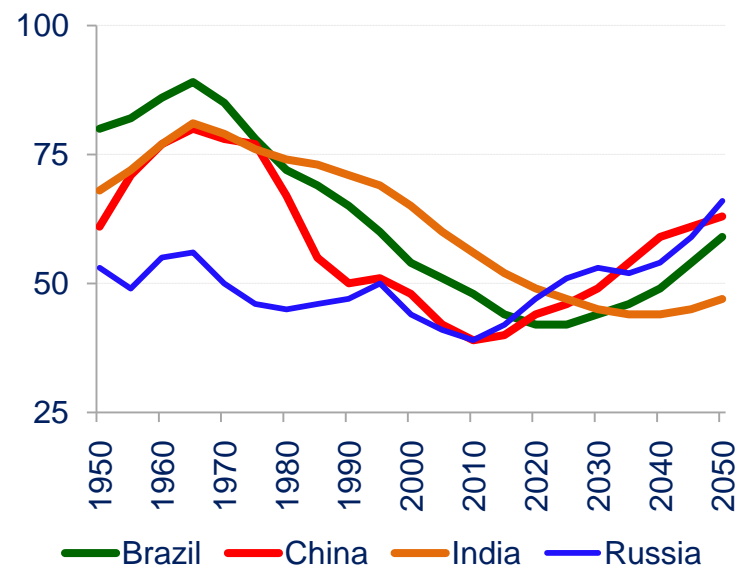
- 7th largest GDP: US\$ 2,090 billion (2010).
- Continental country: 5th largest area 8,514,877 km².
- 5th largest population: 191 million people.

Demographics

Population Pyramid (2010)



Dependency Ratio



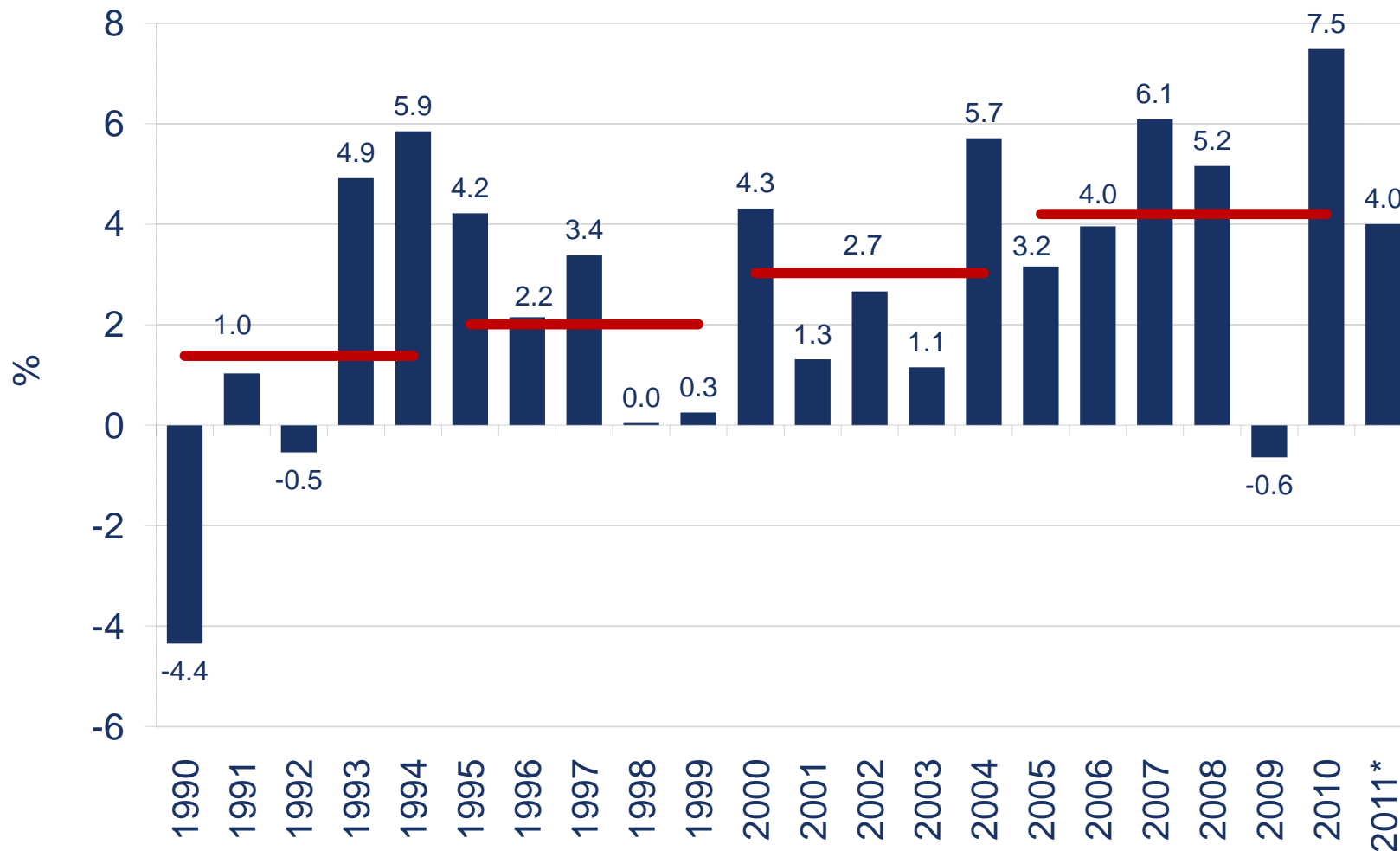
- **Brazil's population is highly concentrated within the Economically Active Population range.**
- **Brazil's dependency ratio is still declining, while other countries already face an upward trend.**

Note: The dependency ratio is the ratio of the sum of the population aged 0-14 and that aged 65+ to the population aged 15-64.

Macroeconomic Policy

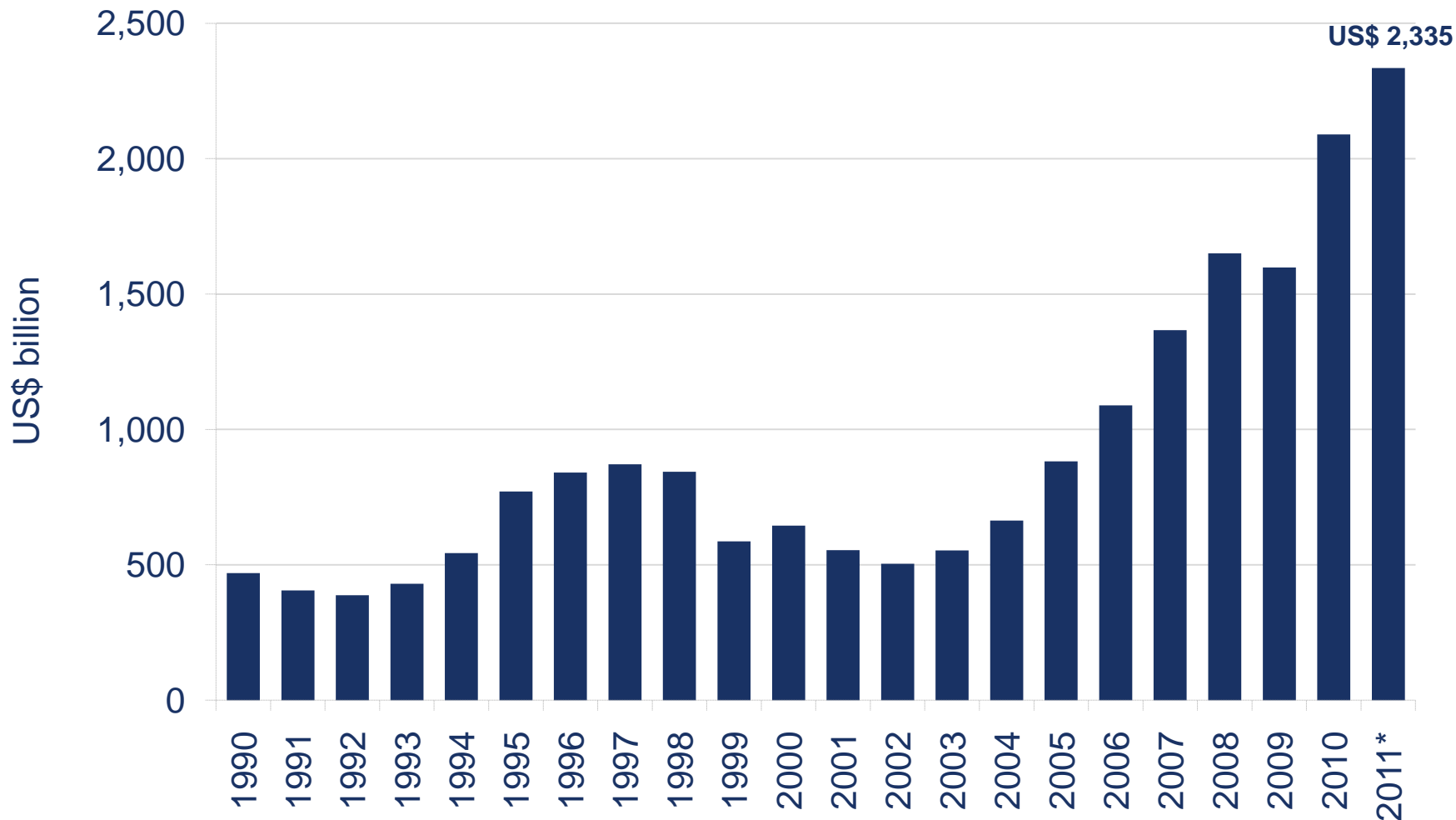
- Main features of the macroeconomic policy framework:
 - Inflation targeting
 - Fiscal responsibility
 - Exchange rate flexibility
- The macroeconomic fundamentals, combined with adequate prudential policy and strong bank supervision resulted in:
 - Capacity to absorb internal and external shocks
 - Macroeconomic and financial stability
 - Sustainable growth
 - Credit and capital market development
 - Investment growth

GDP Real Growth



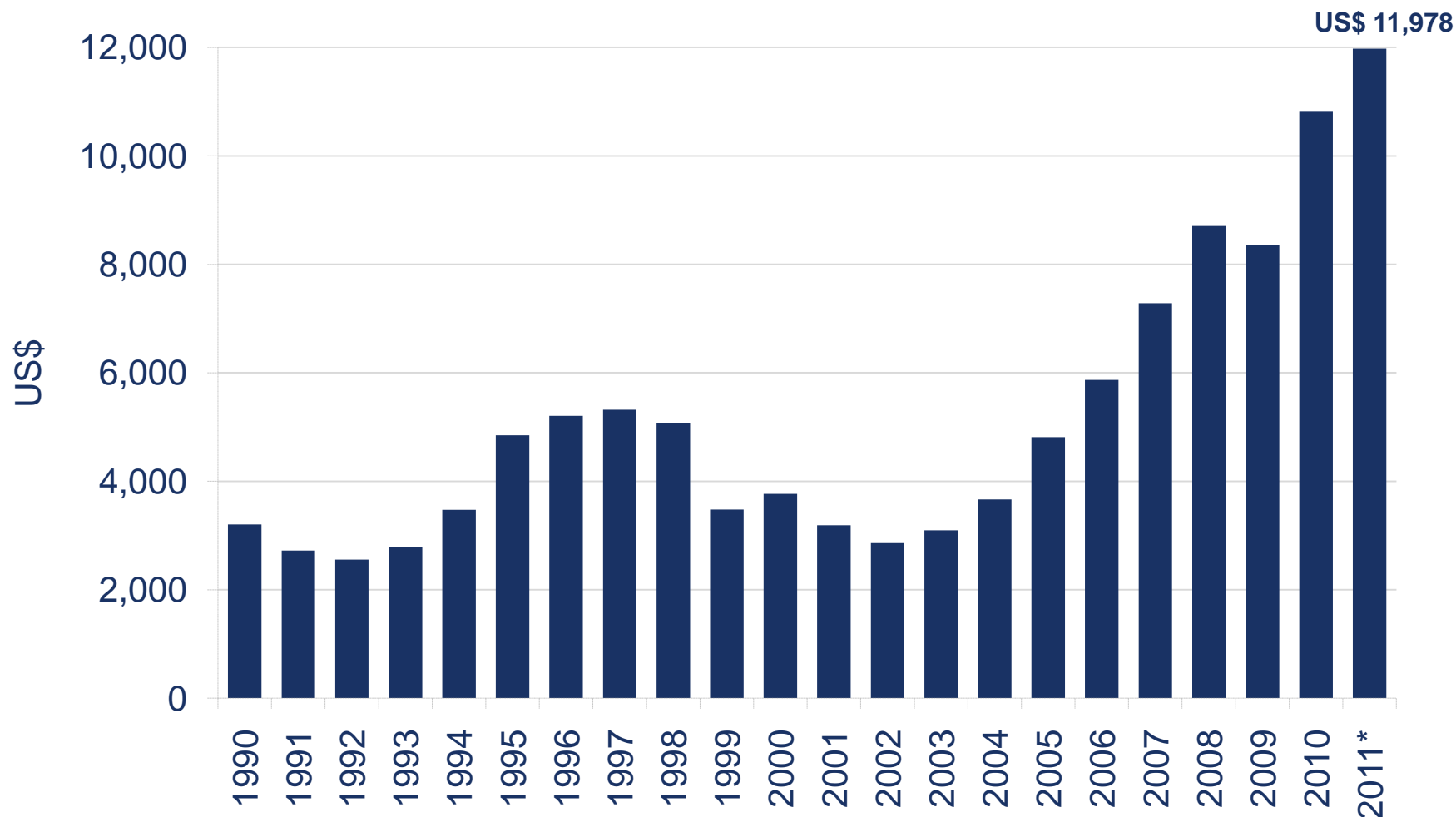
*Forecast from Central Bank of Brazil (Inflation Report – June 2011)

GDP



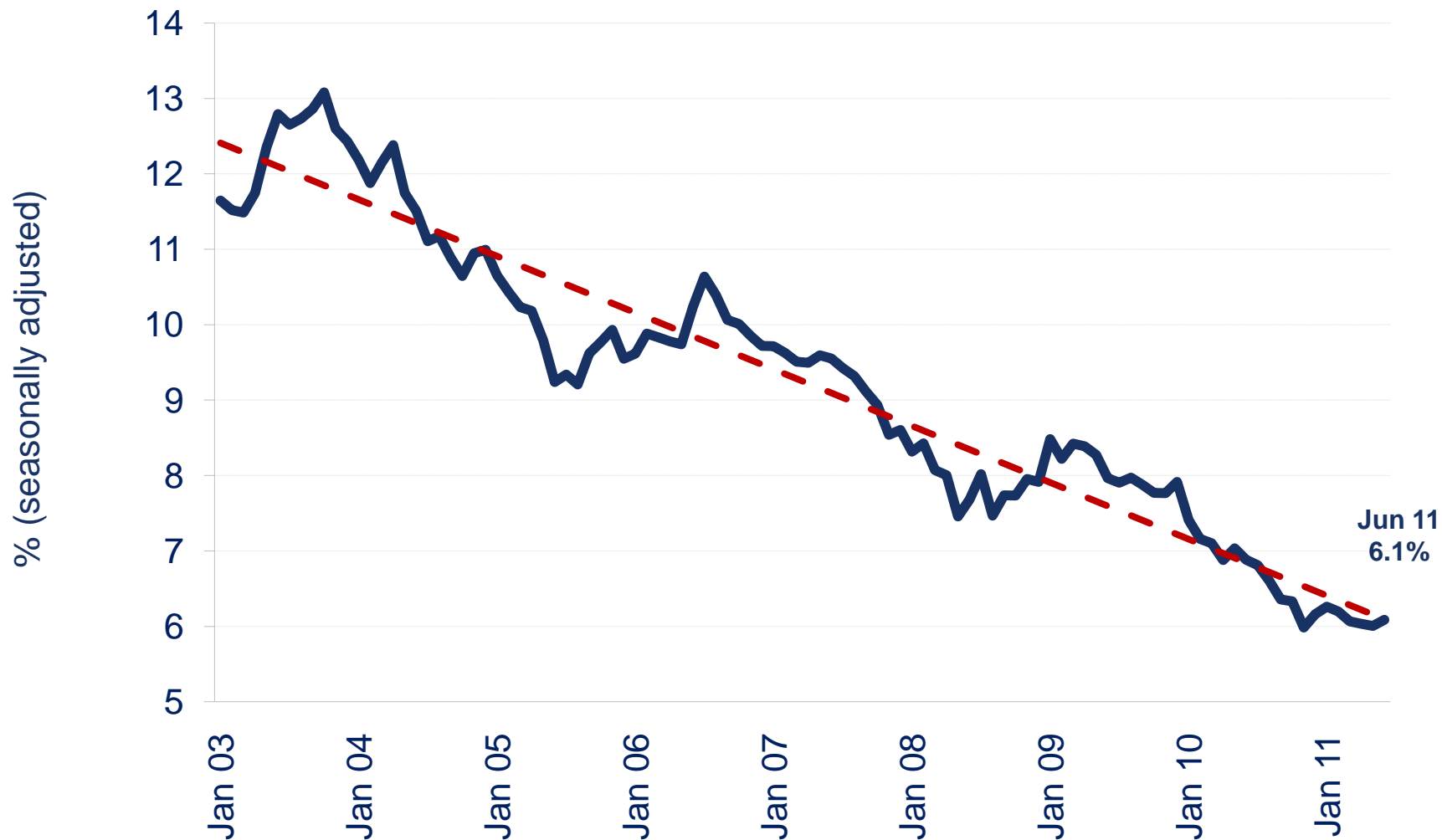
*Forecast from Central Bank of Brazil (Inflation Report – June 2011)

GDP per Capita

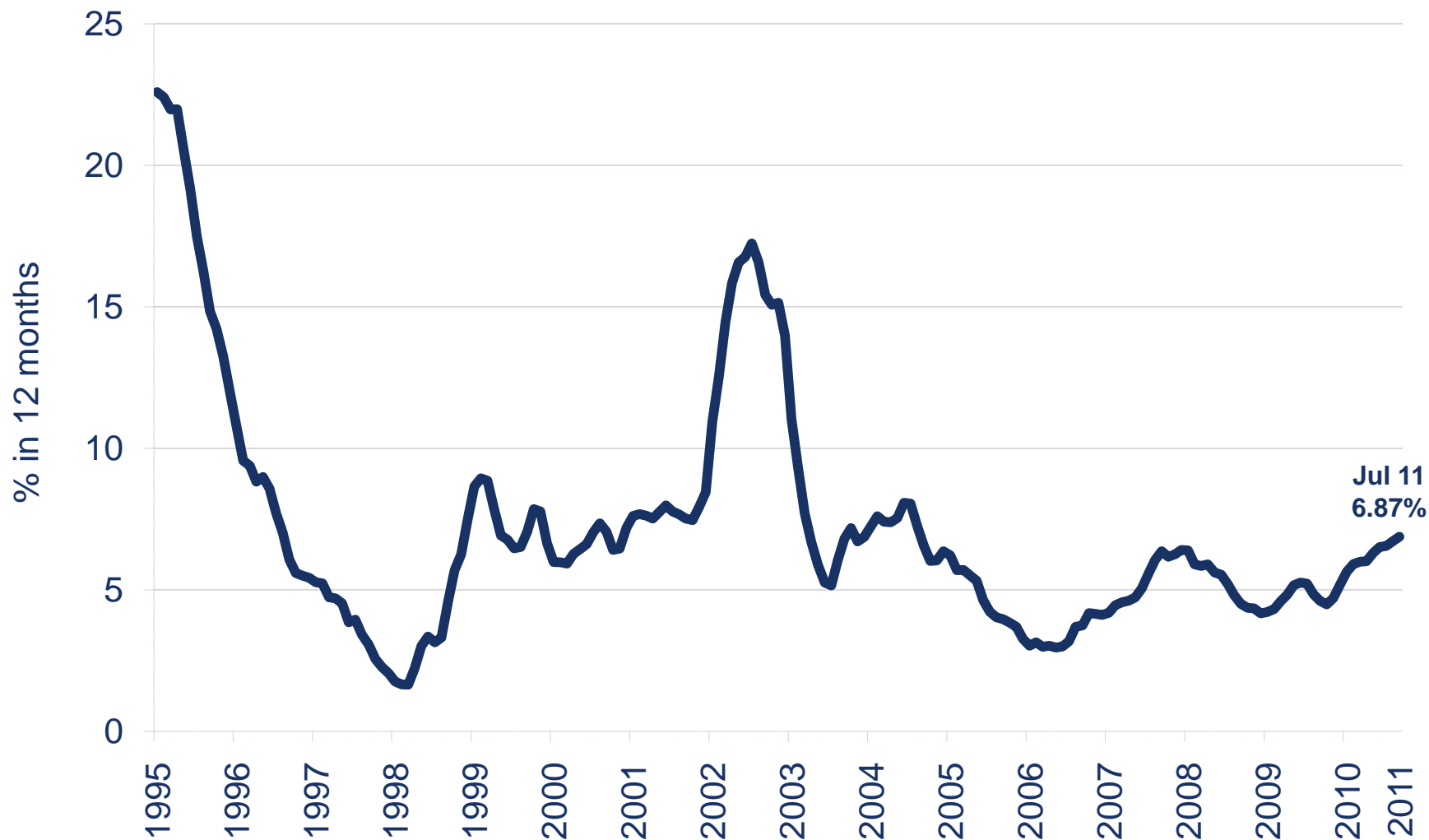


*Forecast from Central Bank of Brazil (Inflation Report – June 2011)

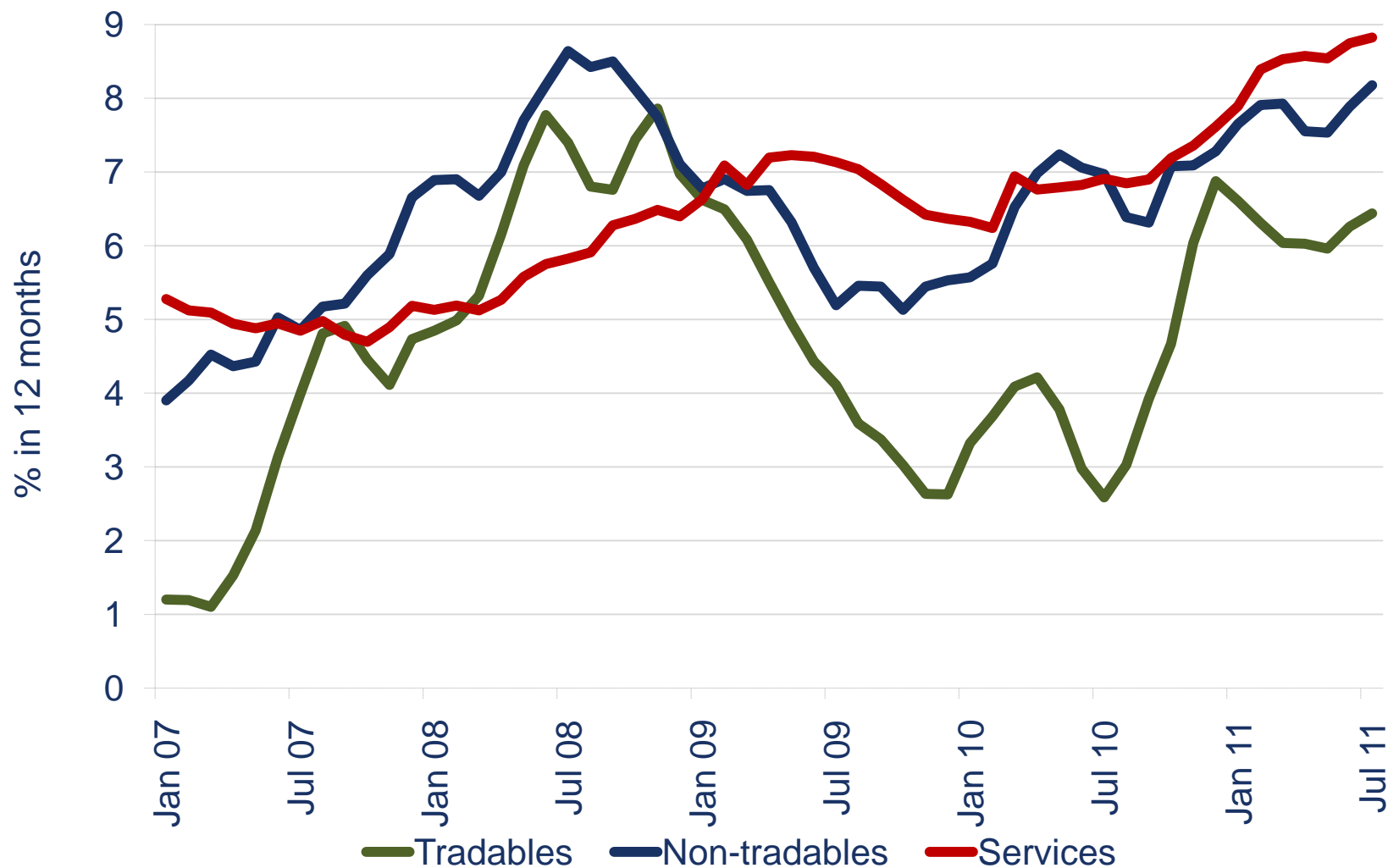
Unemployment Rate



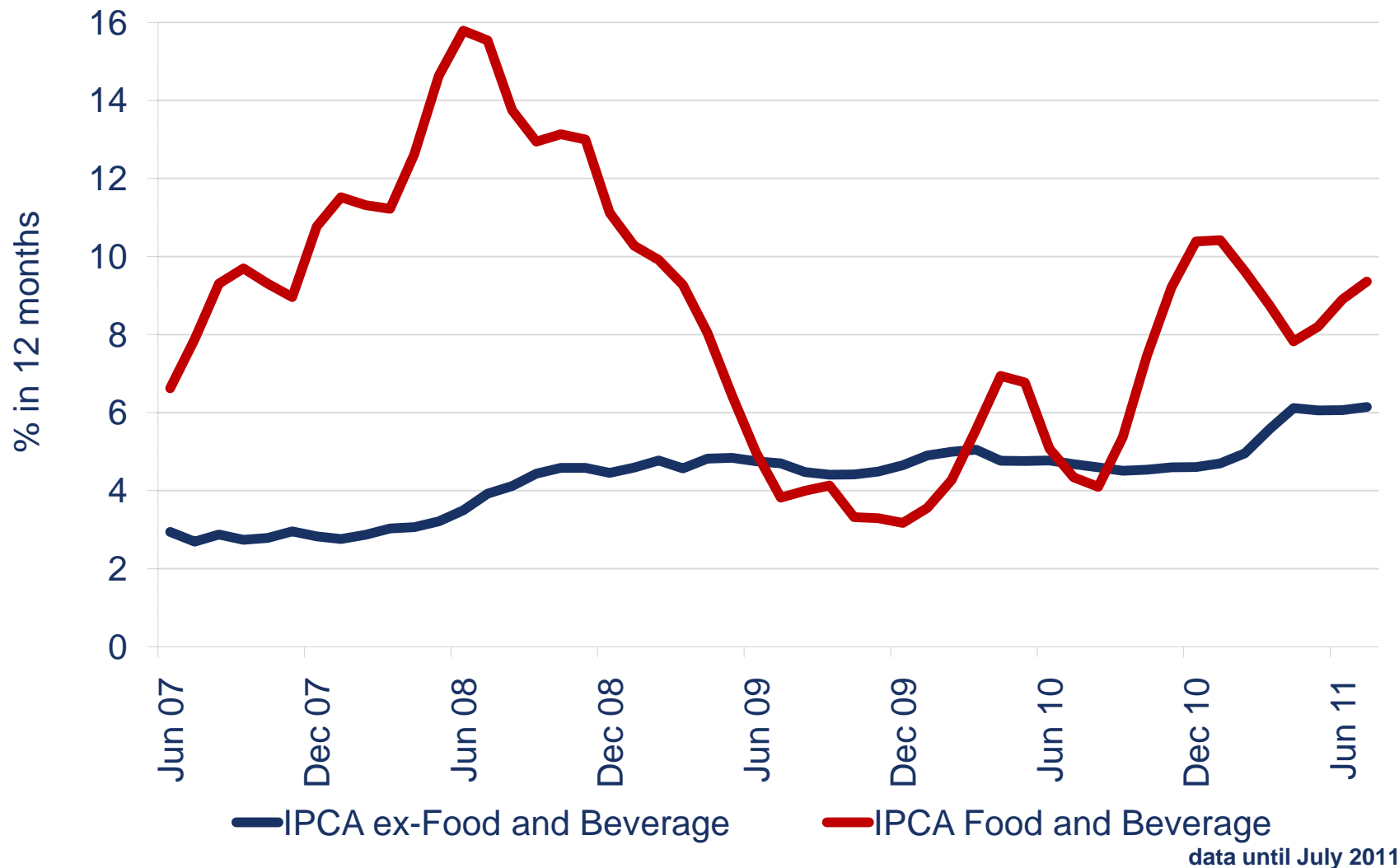
Consumer Price Index (IPCA)



Consumer Price Index (IPCA) - Breakdown



Consumer Price Index (IPCA)

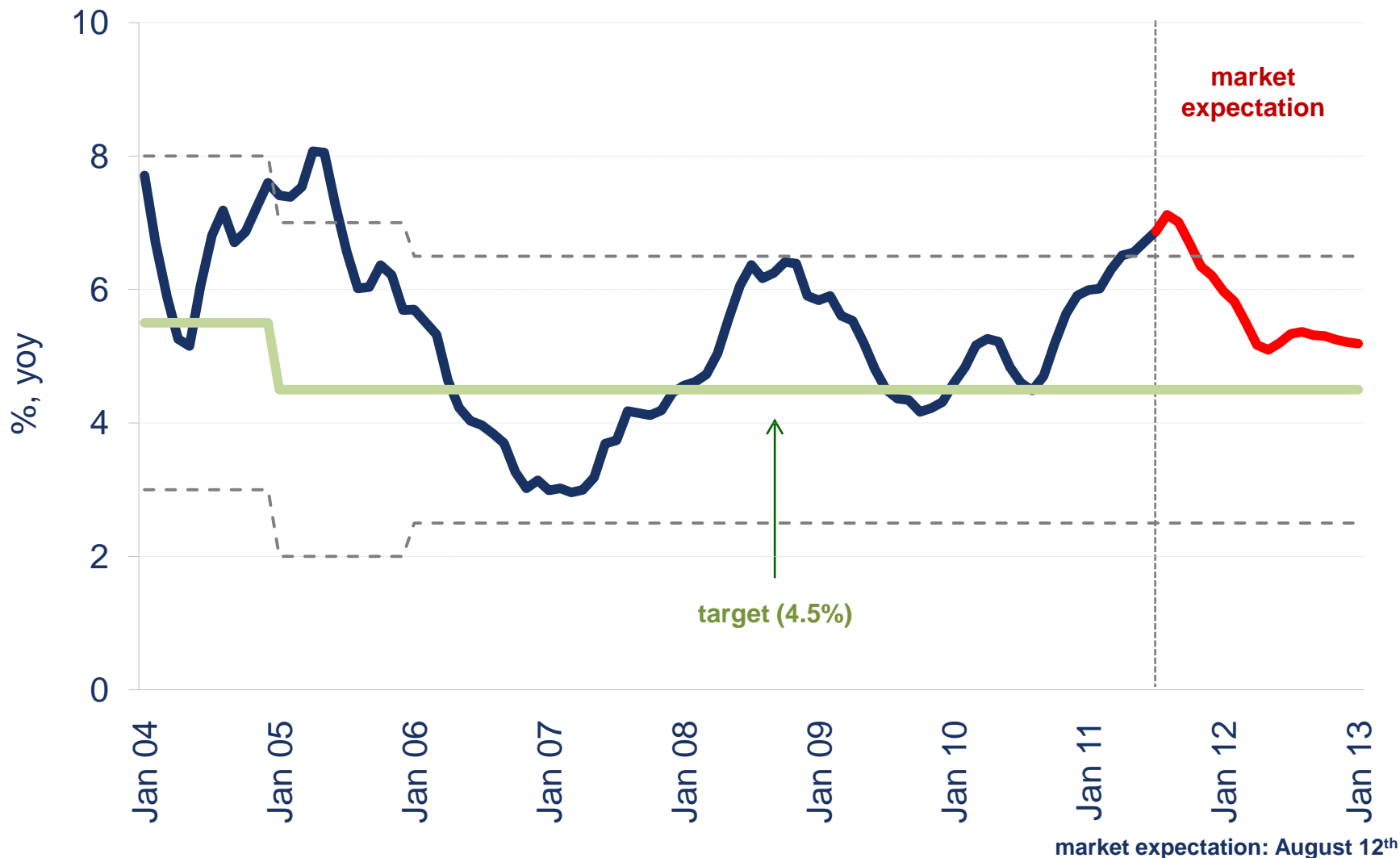


Consumer Price Index (IPCA)

	change yoy (%)							
	2004	2005	2006	2007	2008	2009	2010	2011*
Consumer Price Index (IPCA)	7.6	5.7	3.1	4.5	5.9	4.3	5.9	6.9
Food and beverage	3.9	2.0	1.2	10.8	11.1	3.2	10.4	9.4
Housing	7.1	6.4	3.1	1.8	5.1	5.7	5.0	6.3
Household equipment	5.4	2.7	-2.7	-2.5	2.0	3.1	3.5	1.3
Apparel	10.0	7.1	5.1	3.8	7.3	6.1	7.5	8.8
Transportation	11.0	8.1	3.0	2.1	2.3	2.4	2.4	5.7
Health and personal care	6.9	6.2	6.0	4.5	5.7	5.4	5.1	5.9
Personal expenses	6.9	7.0	7.3	6.5	7.4	8.0	7.4	8.3
Education	10.4	7.2	6.2	4.2	4.6	6.1	6.2	8.3
Communication	13.9	6.4	-0.2	0.7	1.8	1.1	0.9	1.8
Tradables	6.3	2.7	1.3	4.7	7.0	2.6	6.9	6.4
Nontradables	6.9	6.4	4.0	6.6	7.1	5.5	7.3	8.2
Regulated	10.2	9.0	4.3	1.7	3.3	4.7	3.1	5.7
Services	6.7	6.8	5.5	5.2	6.4	6.4	7.6	8.8

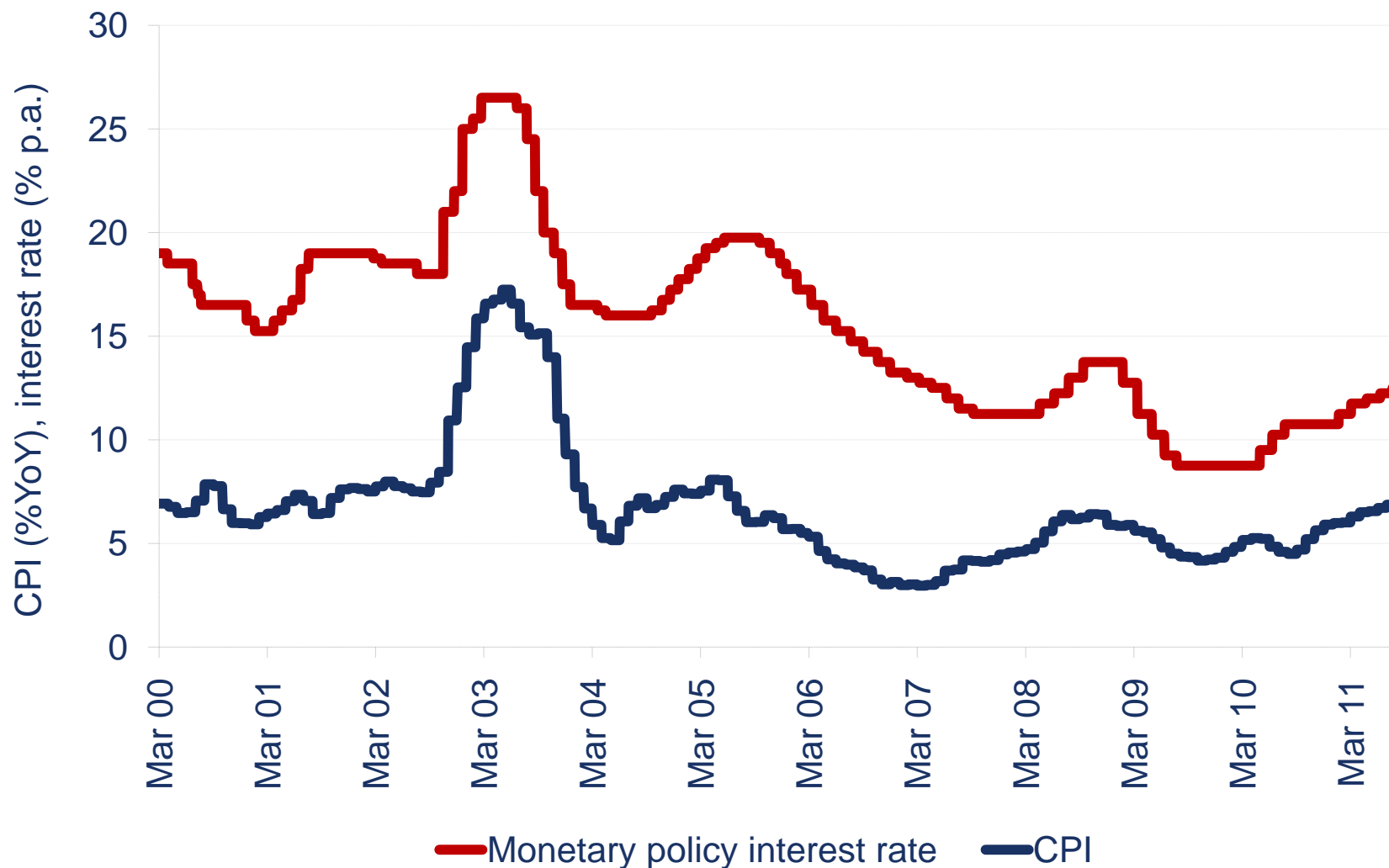
*July 2011 (12months)

Inflation – Convergence to Targets

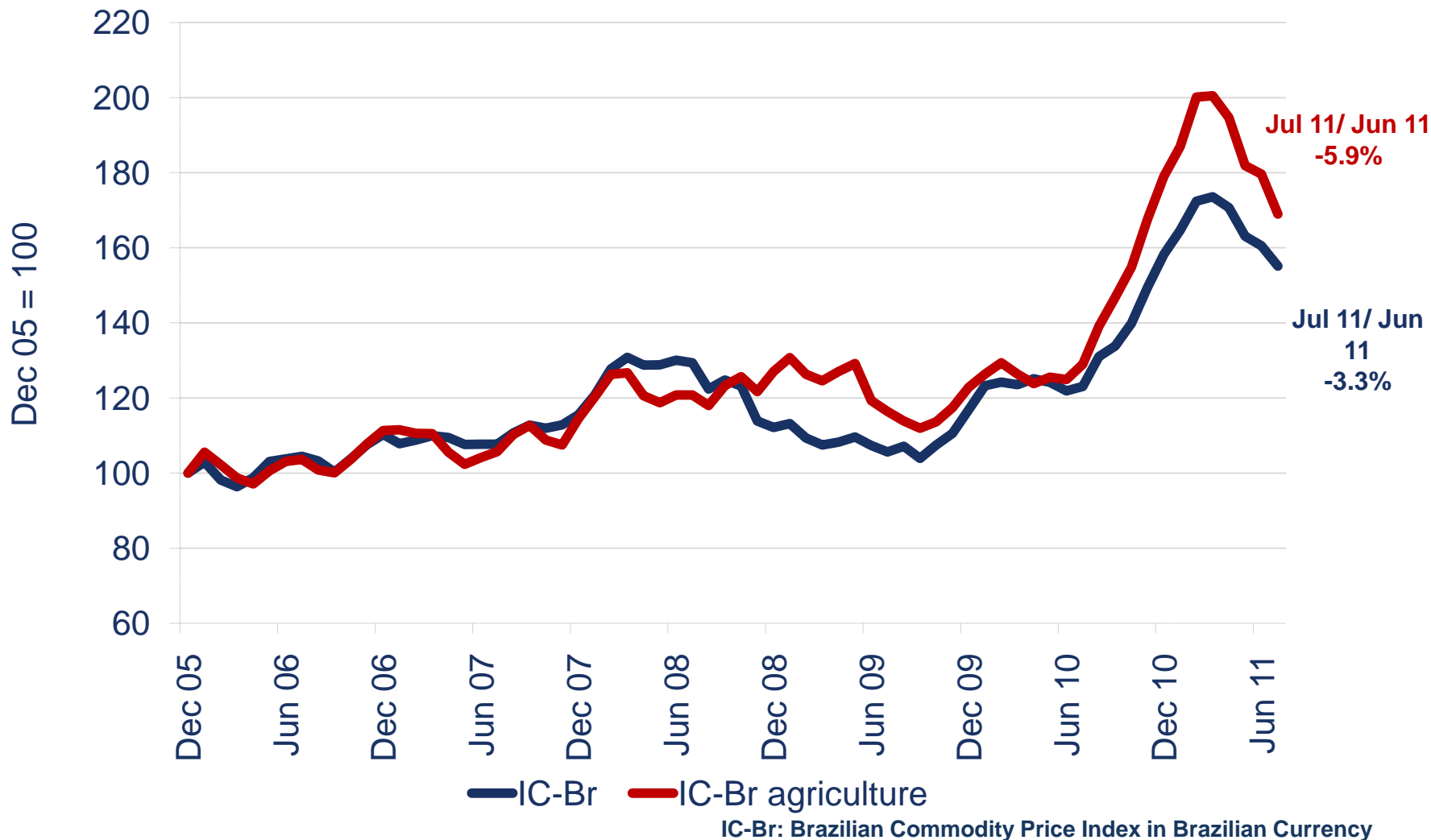


market expectation: August 12th

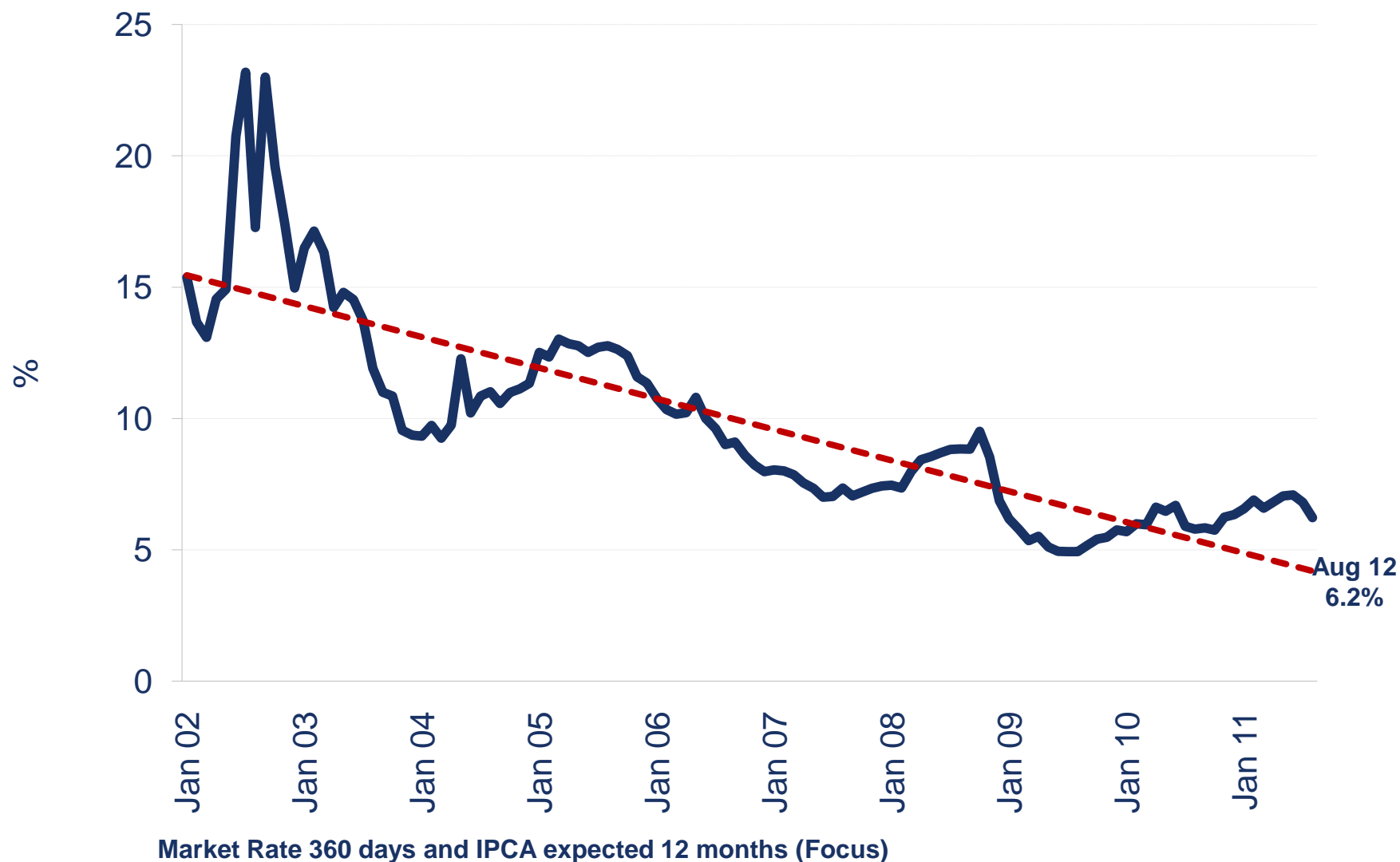
Inflation Targeting Regime



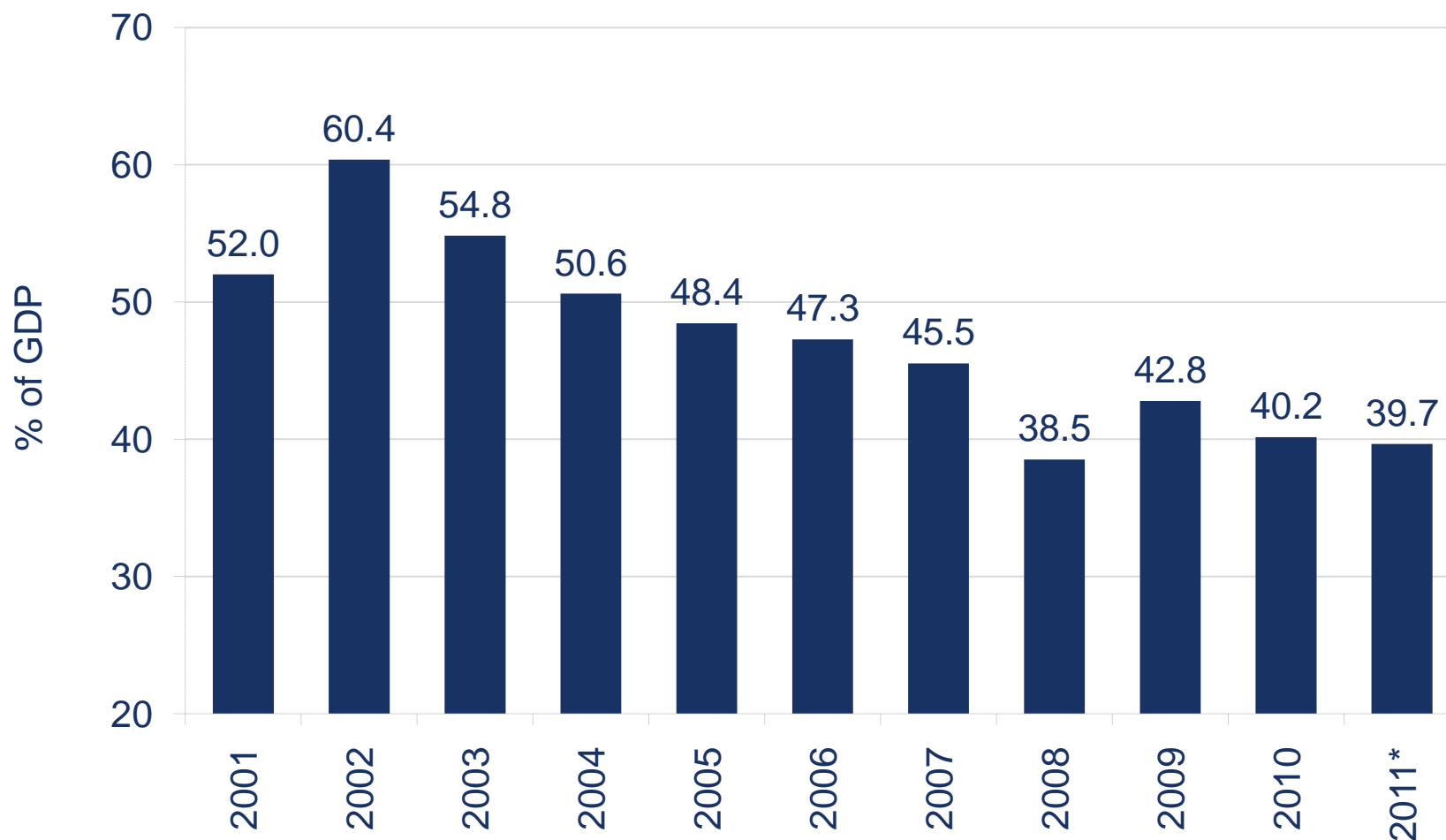
Commodity Price Index



Real Interest Rate



Net Public Debt



*June 2011

Federal Securities - Breakdown

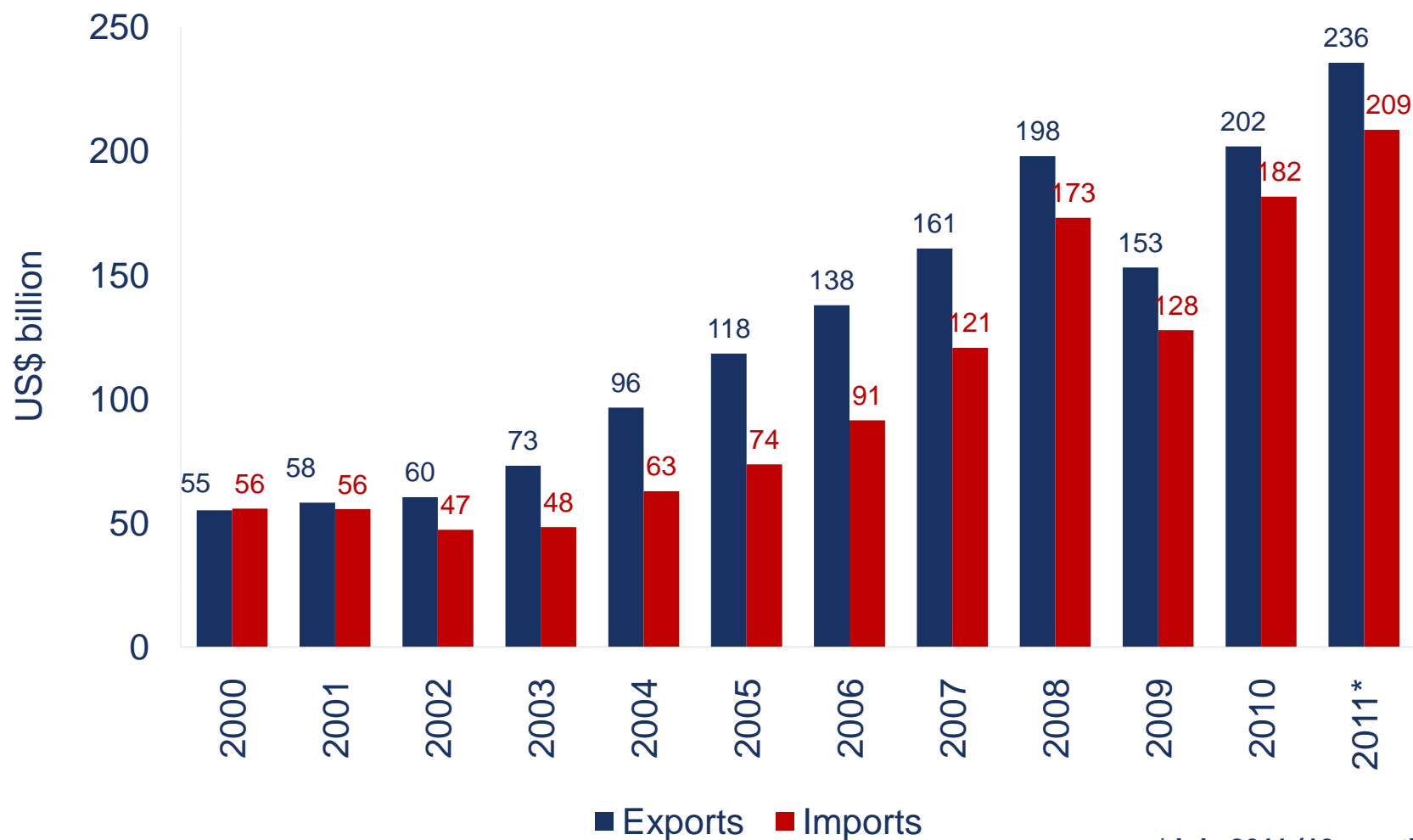
Composition of total federal security debt (%)*

	2004	2005	2006	2007	2008	2009	2010	2011**
Fixed rate	20.1	27.9	36.1	37.3	32.2	33.7	37.9	39.1
Price linked	14.9	15.5	22.5	26.3	29.3	28.6	28.1	28.1
Selic linked	57.1	51.8	37.8	33.4	35.8	35.8	32.5	32.4
Exchange rate	5.2	2.7	1.3	0.9	1.1	0.7	0.6	-0.4
Other	2.7	2.1	2.2	2.1	1.6	1.2	0.8	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Jun 2011

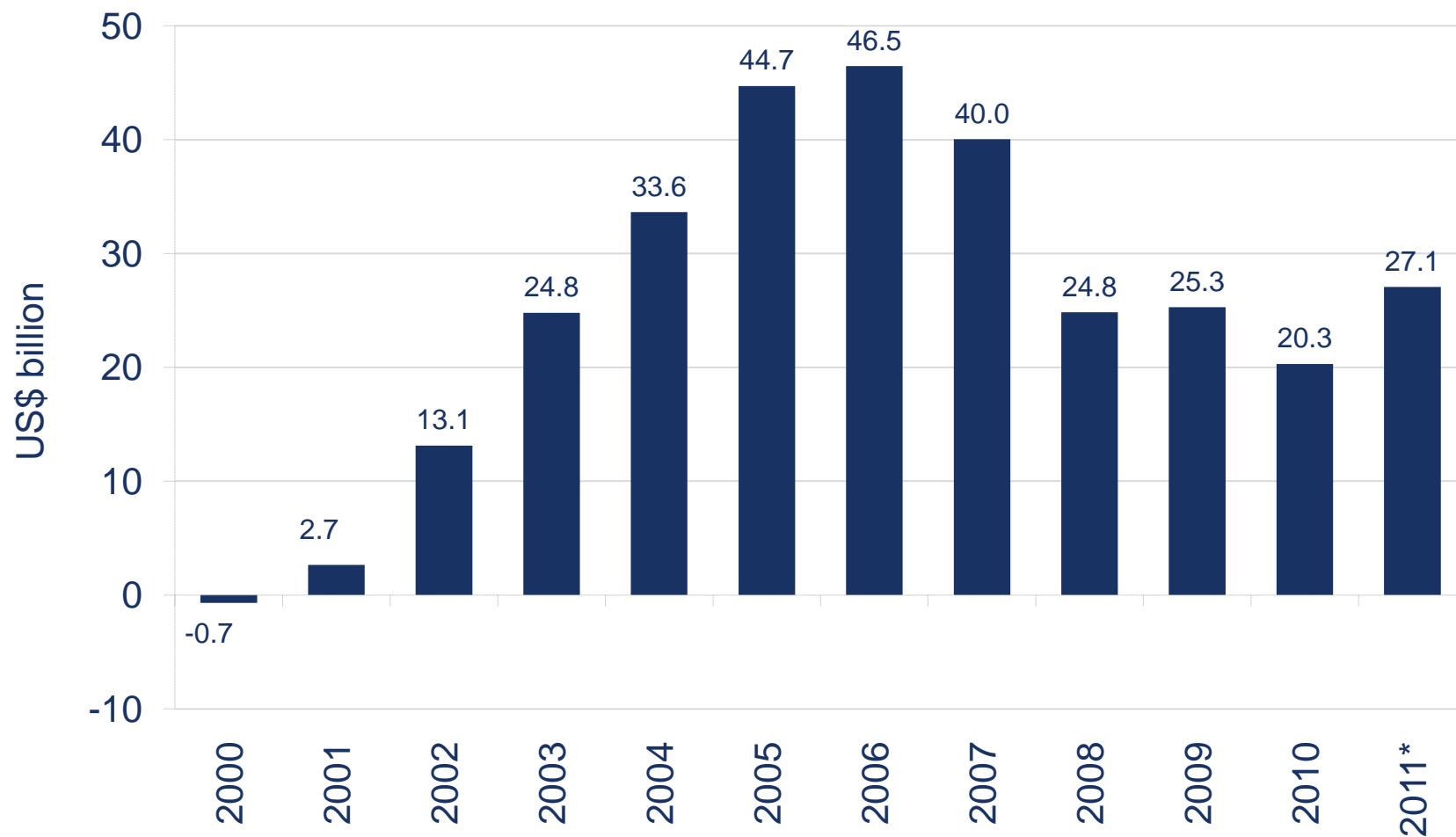
* Do not include securities held by the Central Bank.

Trade Balance – Exports and Imports



*July 2011 (12 months)

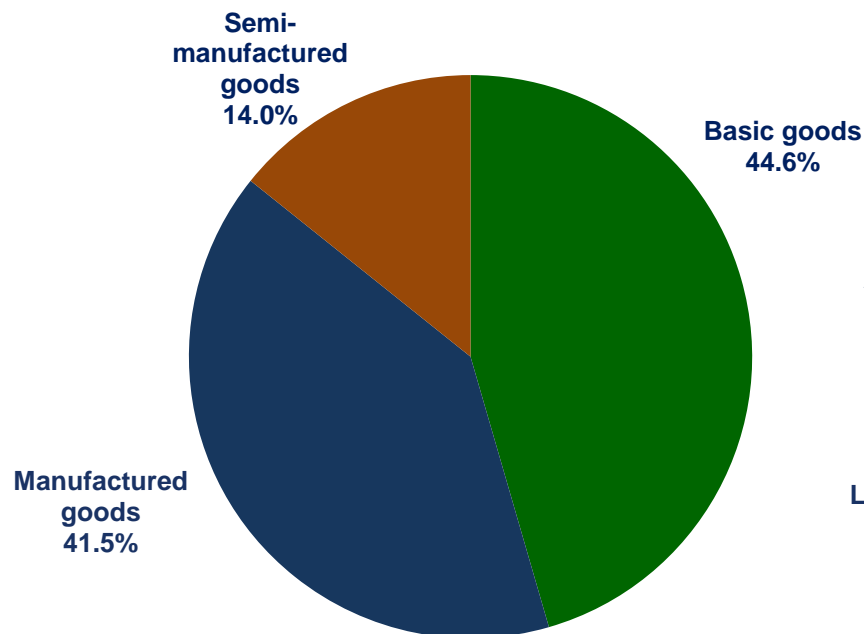
Trade Balance



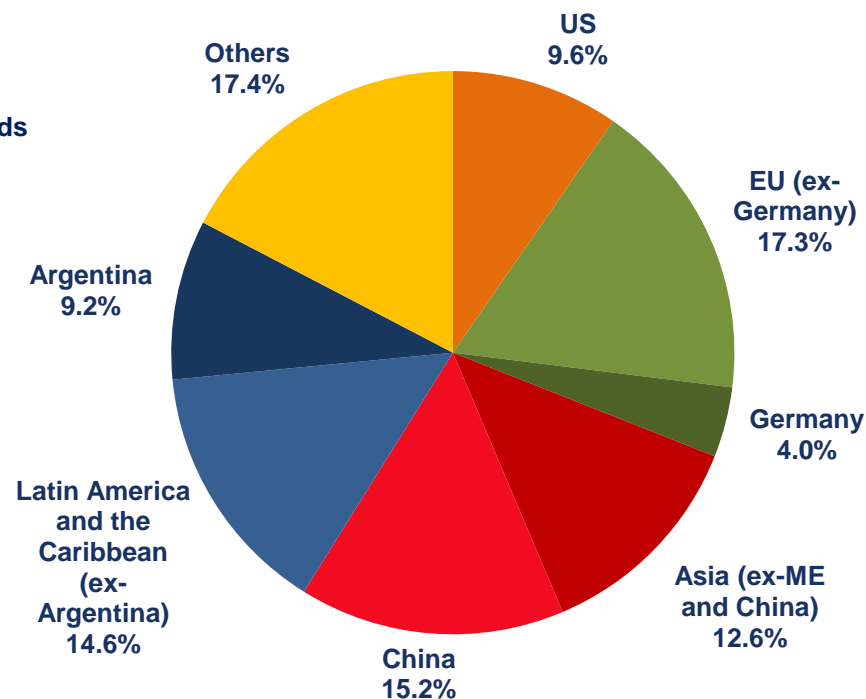
*July 2011 (12 months)

Exports in 2010

Composition



Destination

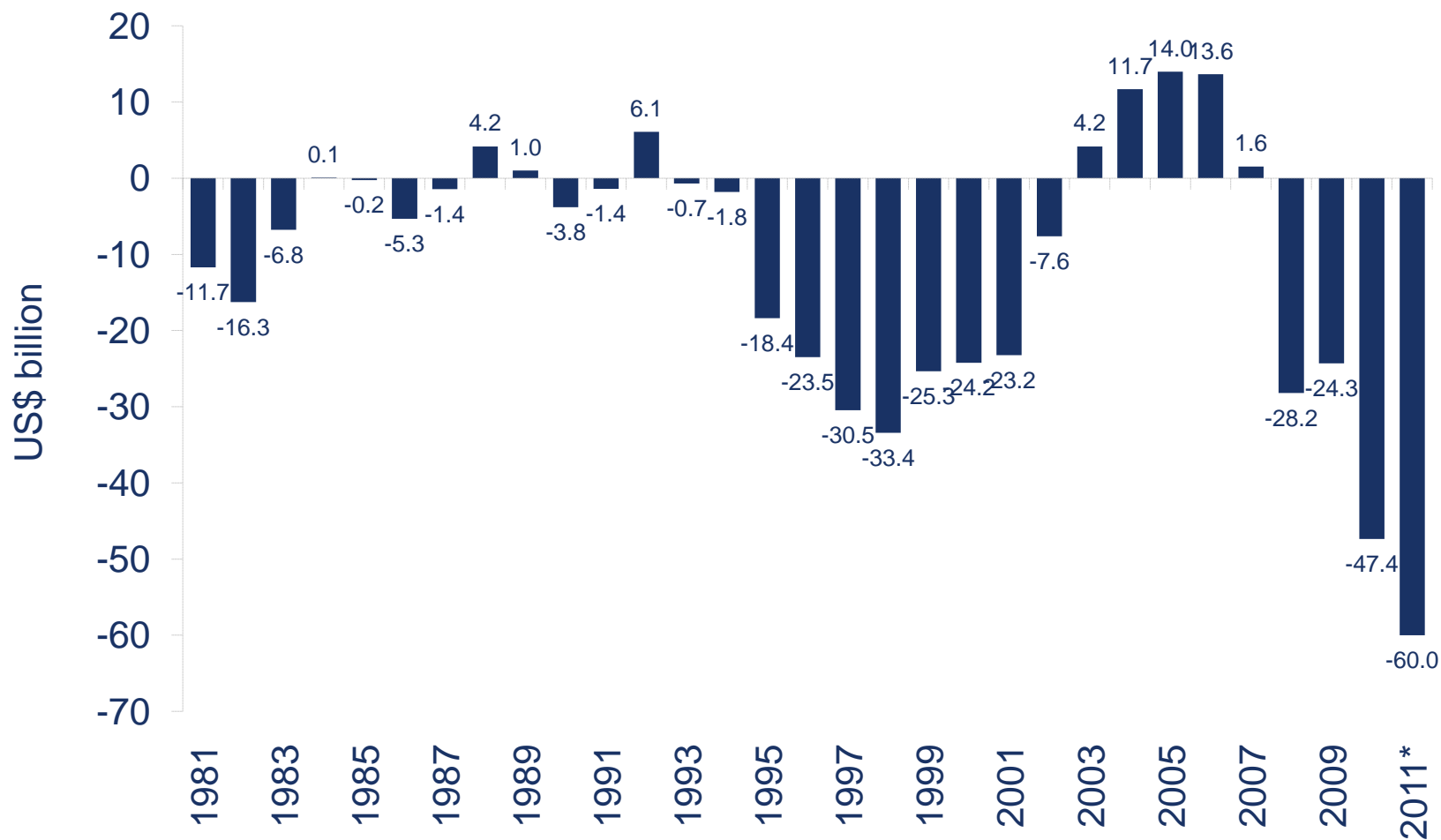


* excluded Argentina

** excluded China and Middle East

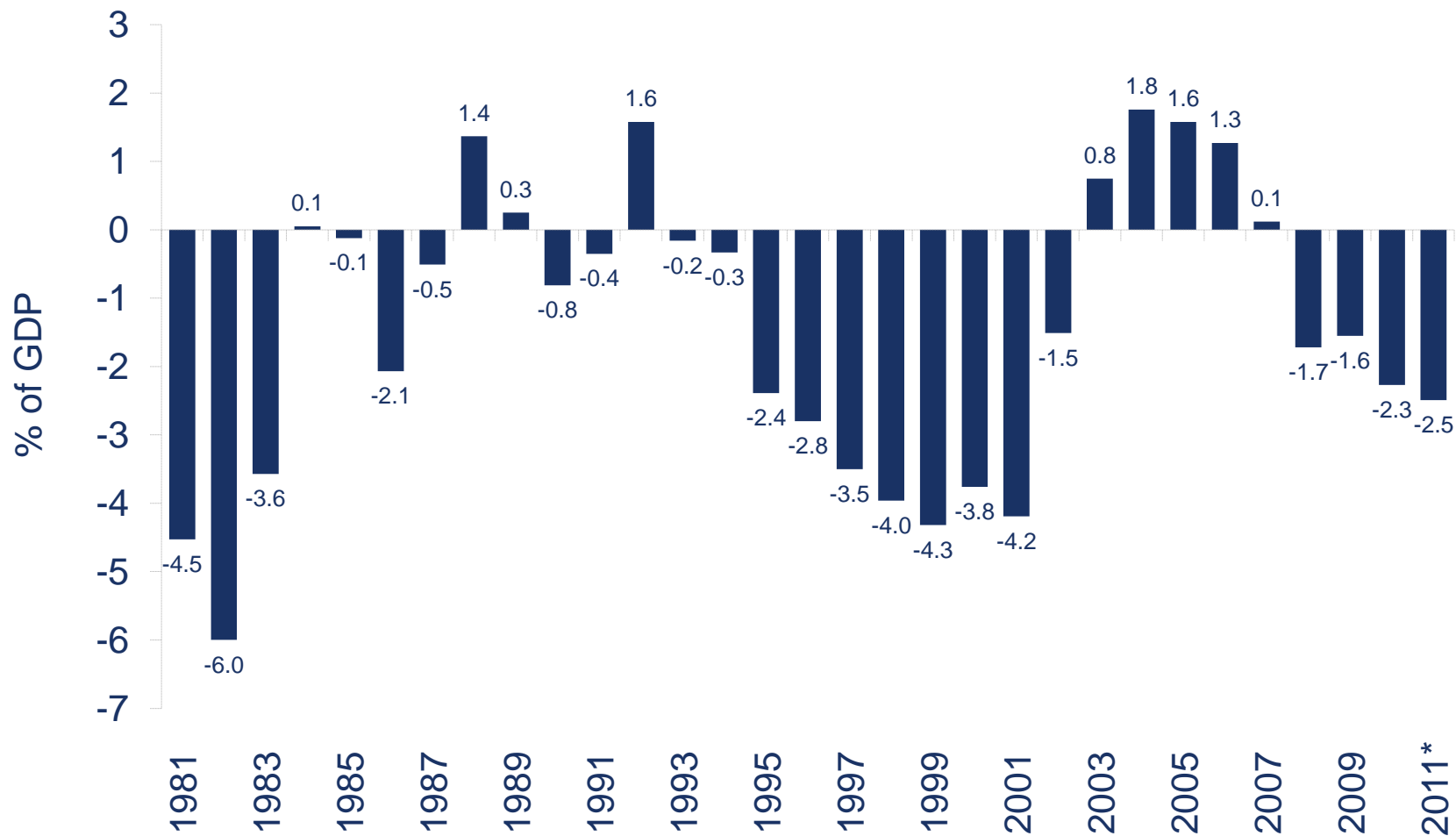
*** excluded Germany

Current Account



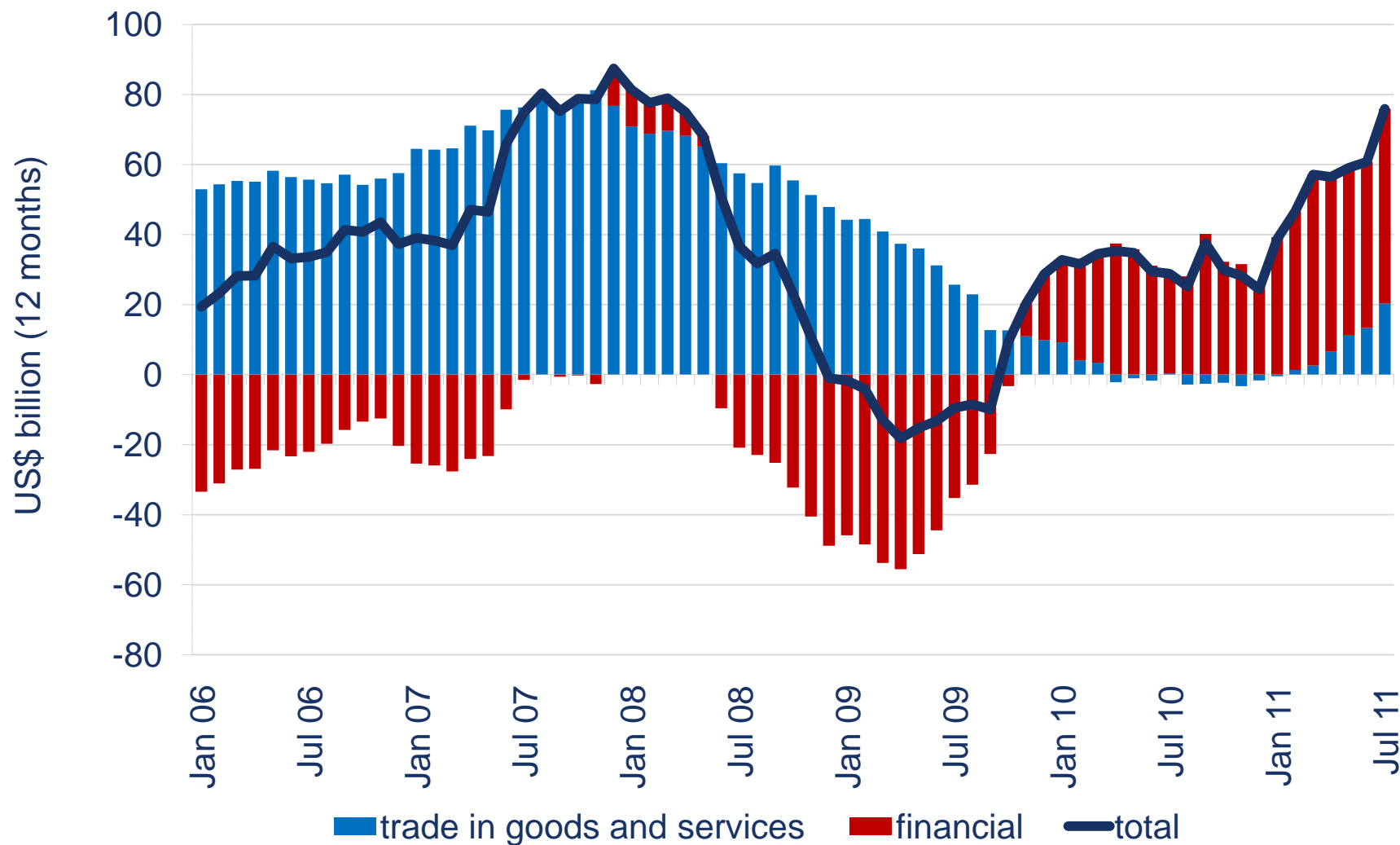
* June 2011 (12 months)

Current Account



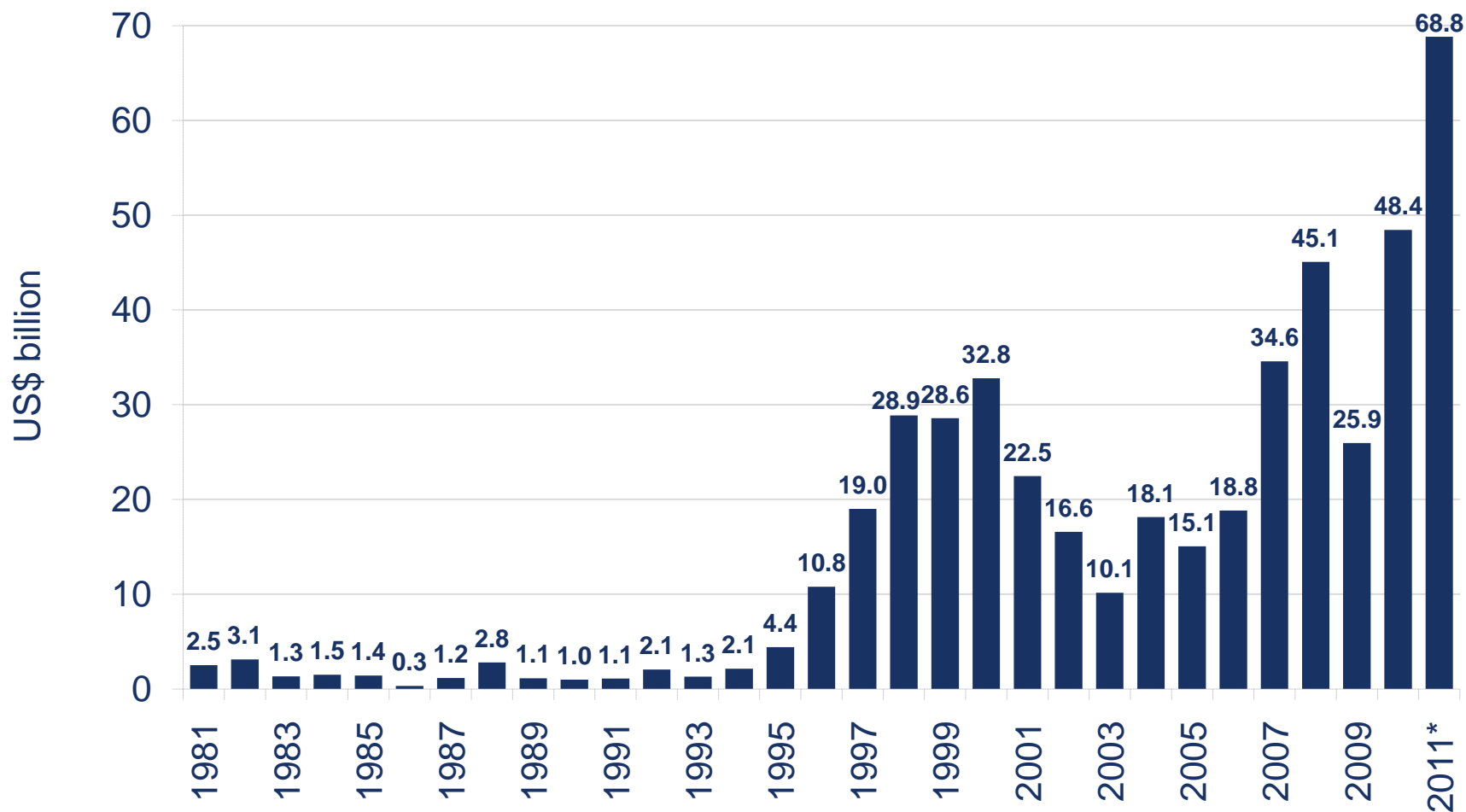
* June 2011 (12 months)

FX Inflows



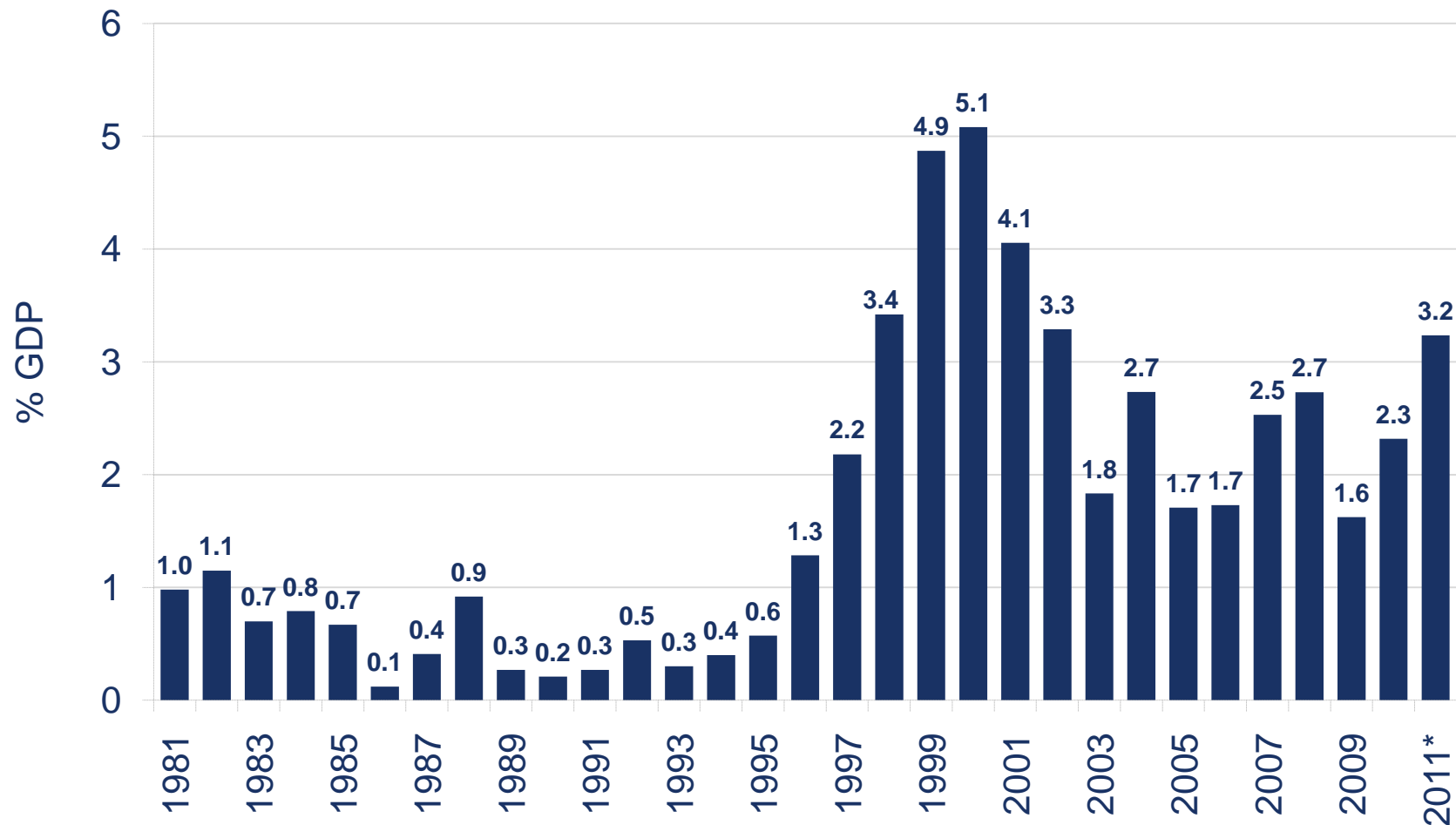
Up to July 29th

Foreign Direct Investment



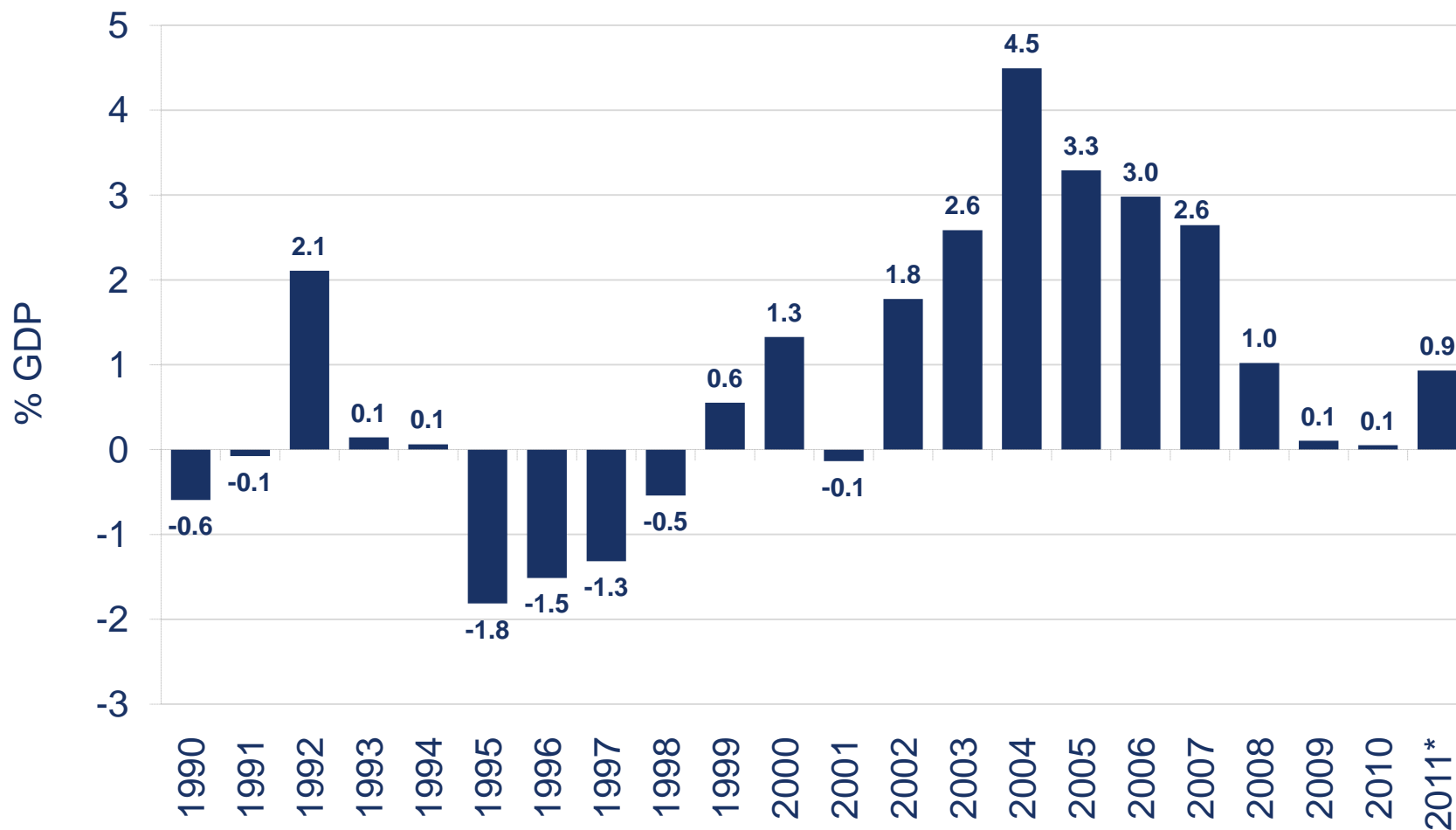
* June 2011 (12 months)

Foreign Direct Investment / GDP



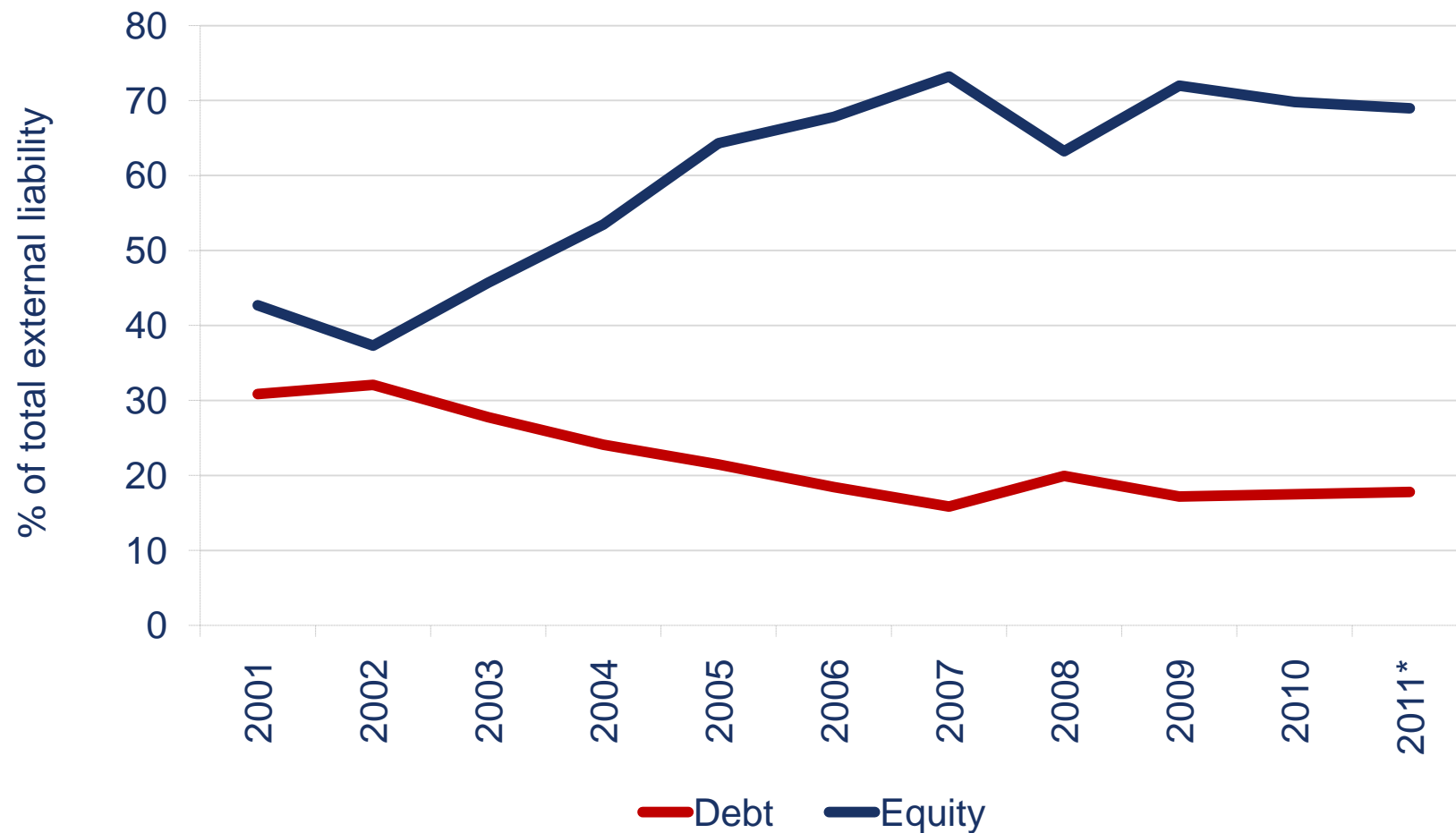
* June 2011 (12 months)

FDI (-) Current Account Deficit



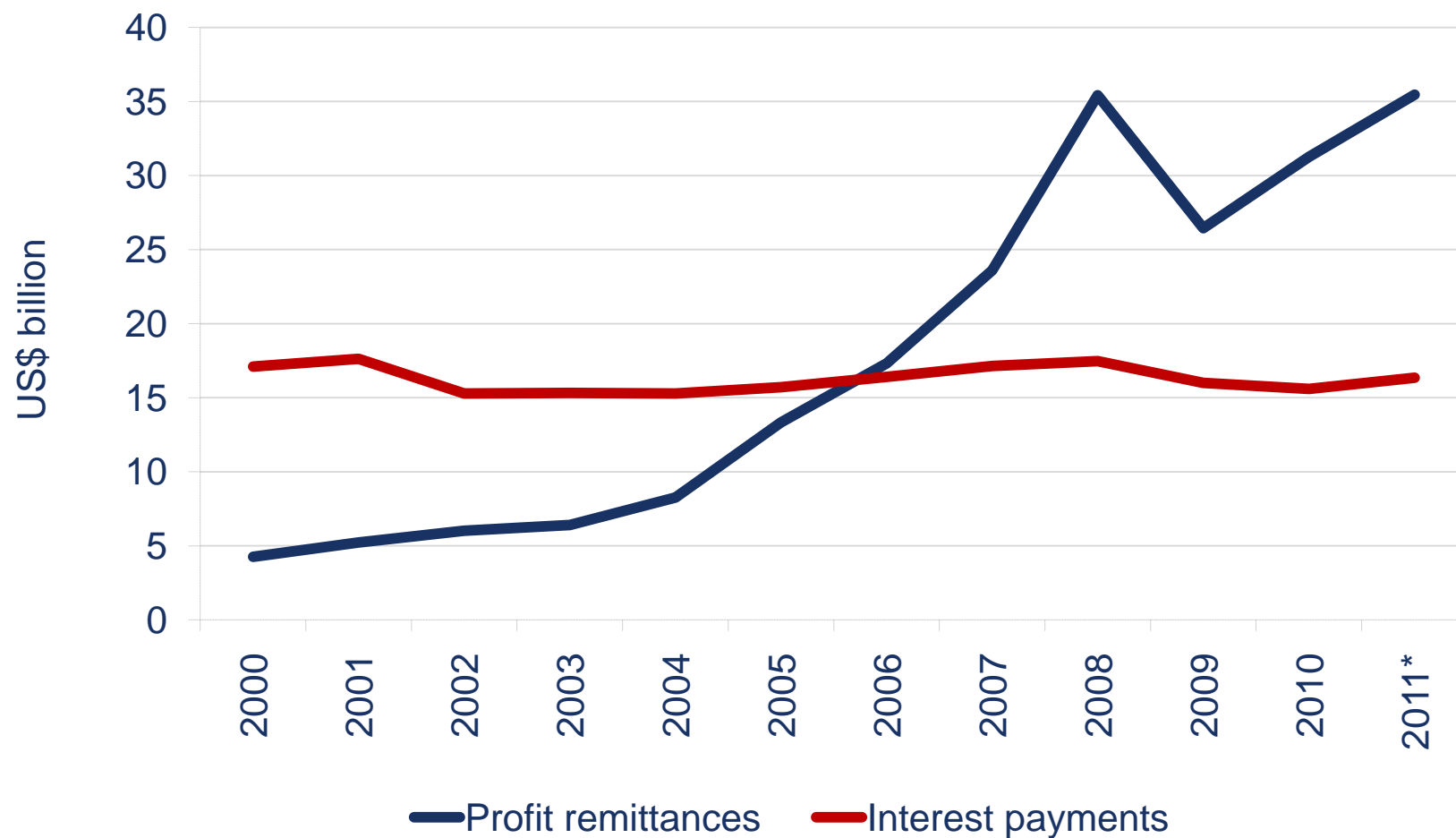
* June 2011 (12 months)

External Liability – Debt vs Equity



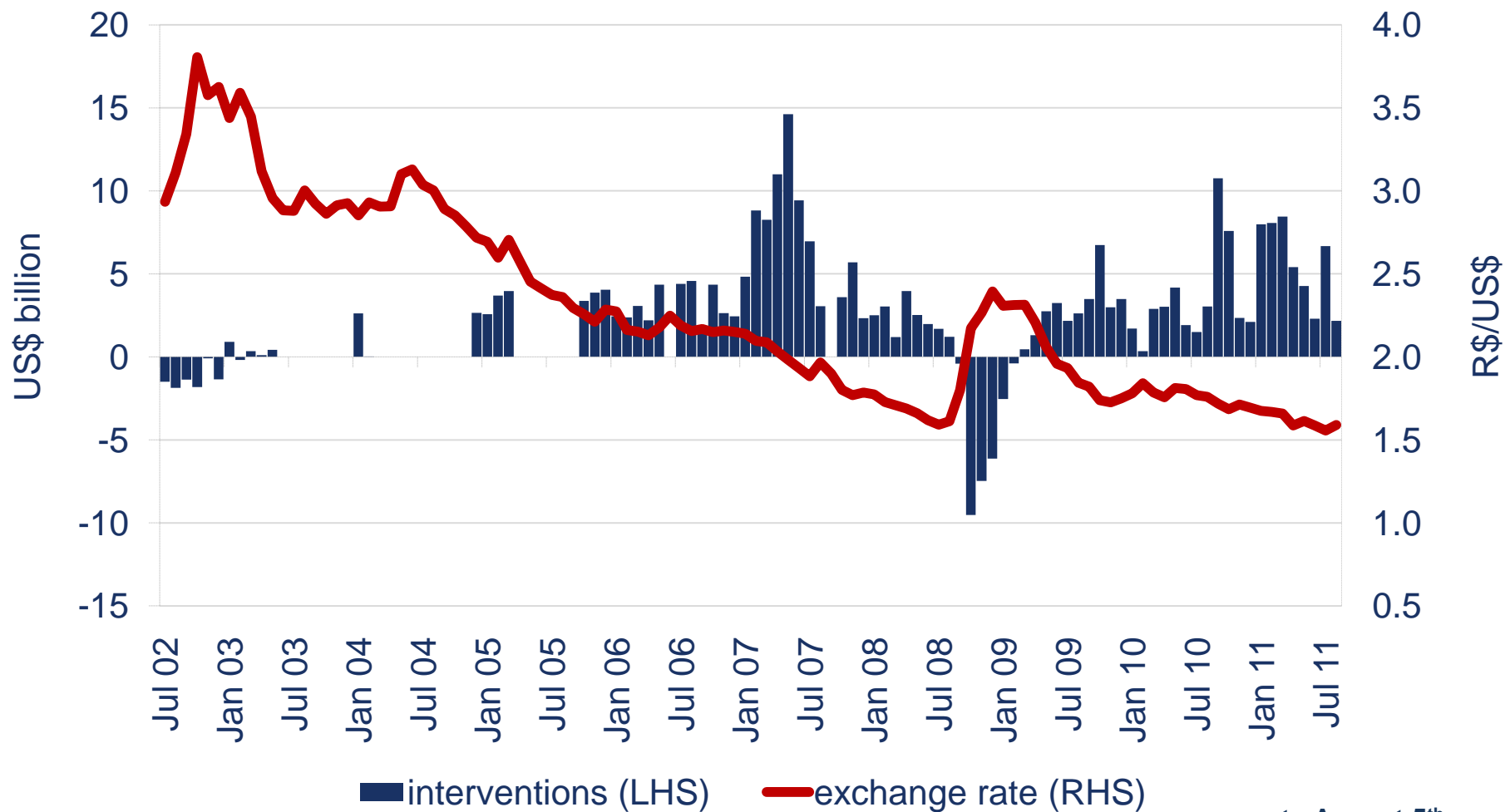
*June 2011

External Liability – Interest vs Profits



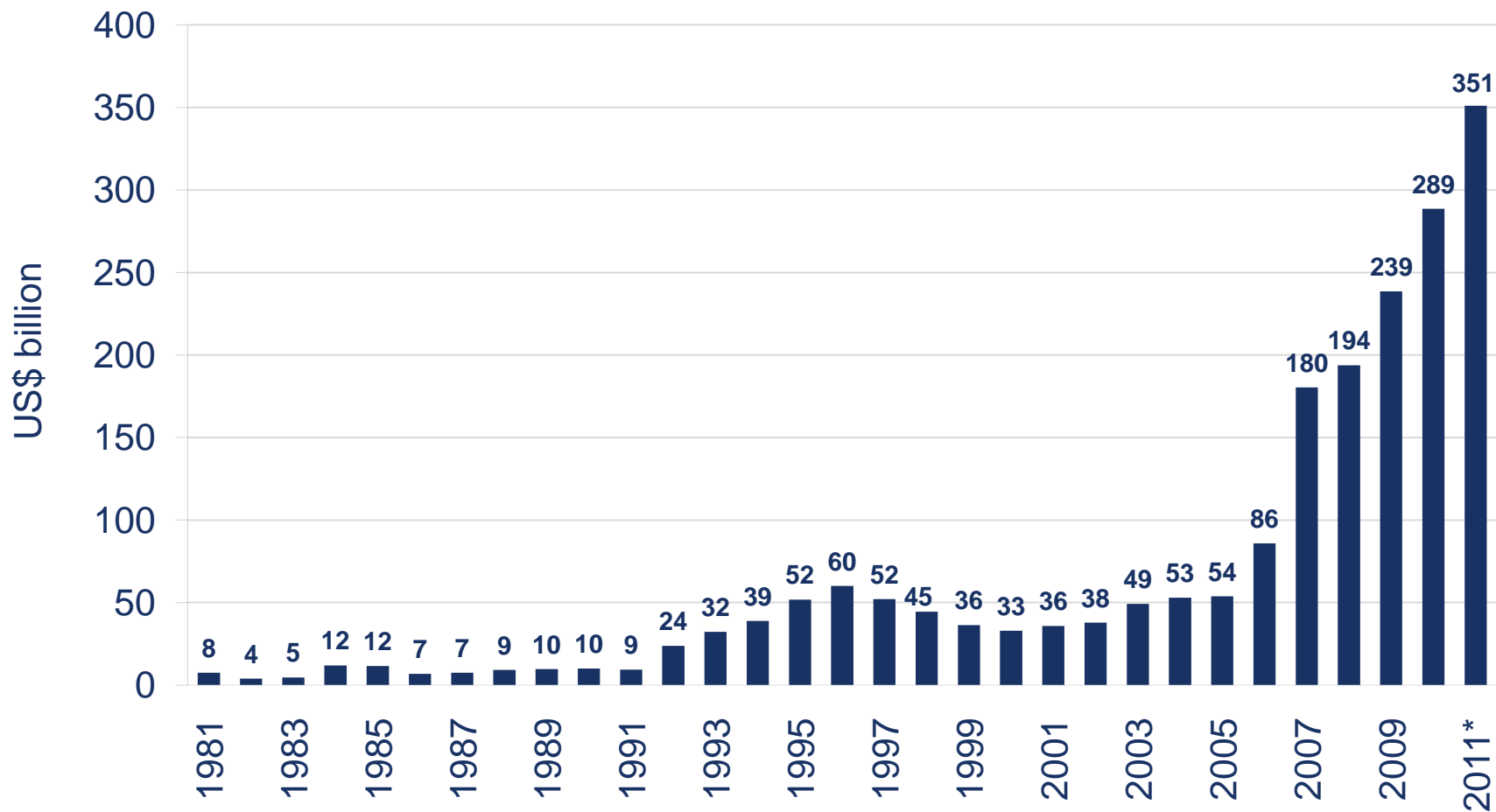
* June 2011 (12 months)

Interventions and Exchange Rate



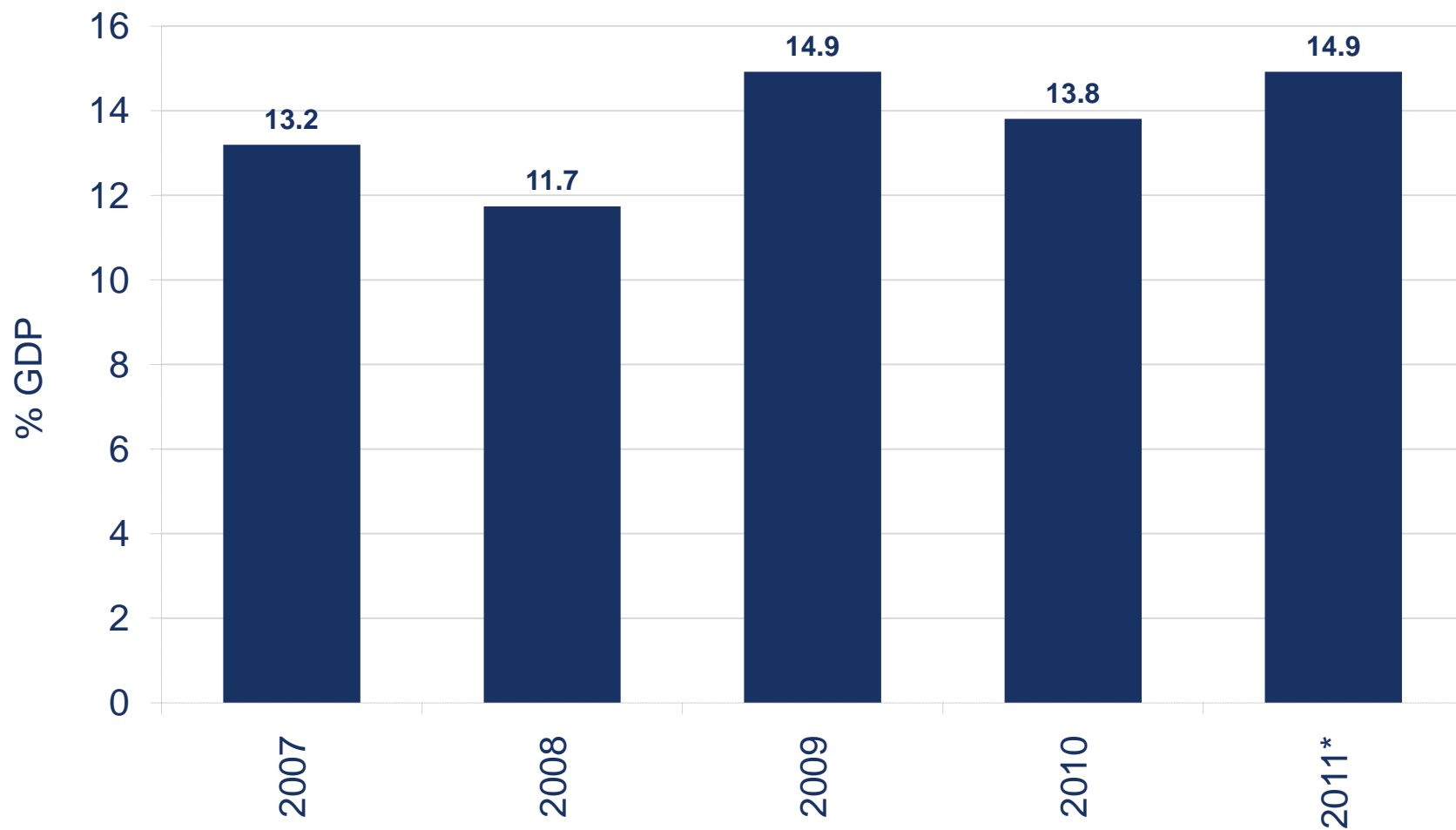
up to August 5th

International Reserves



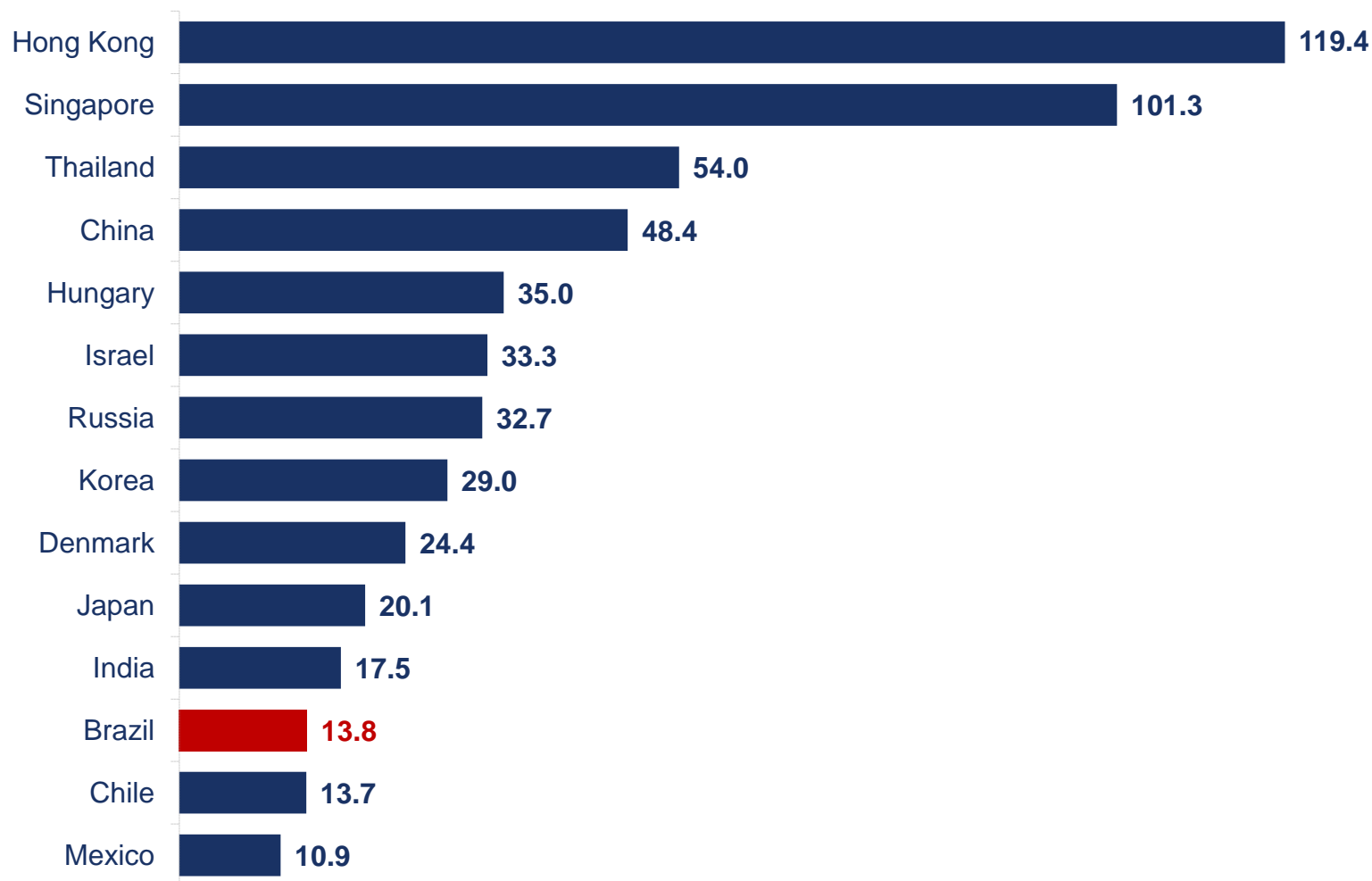
*August 11th

International Reserves



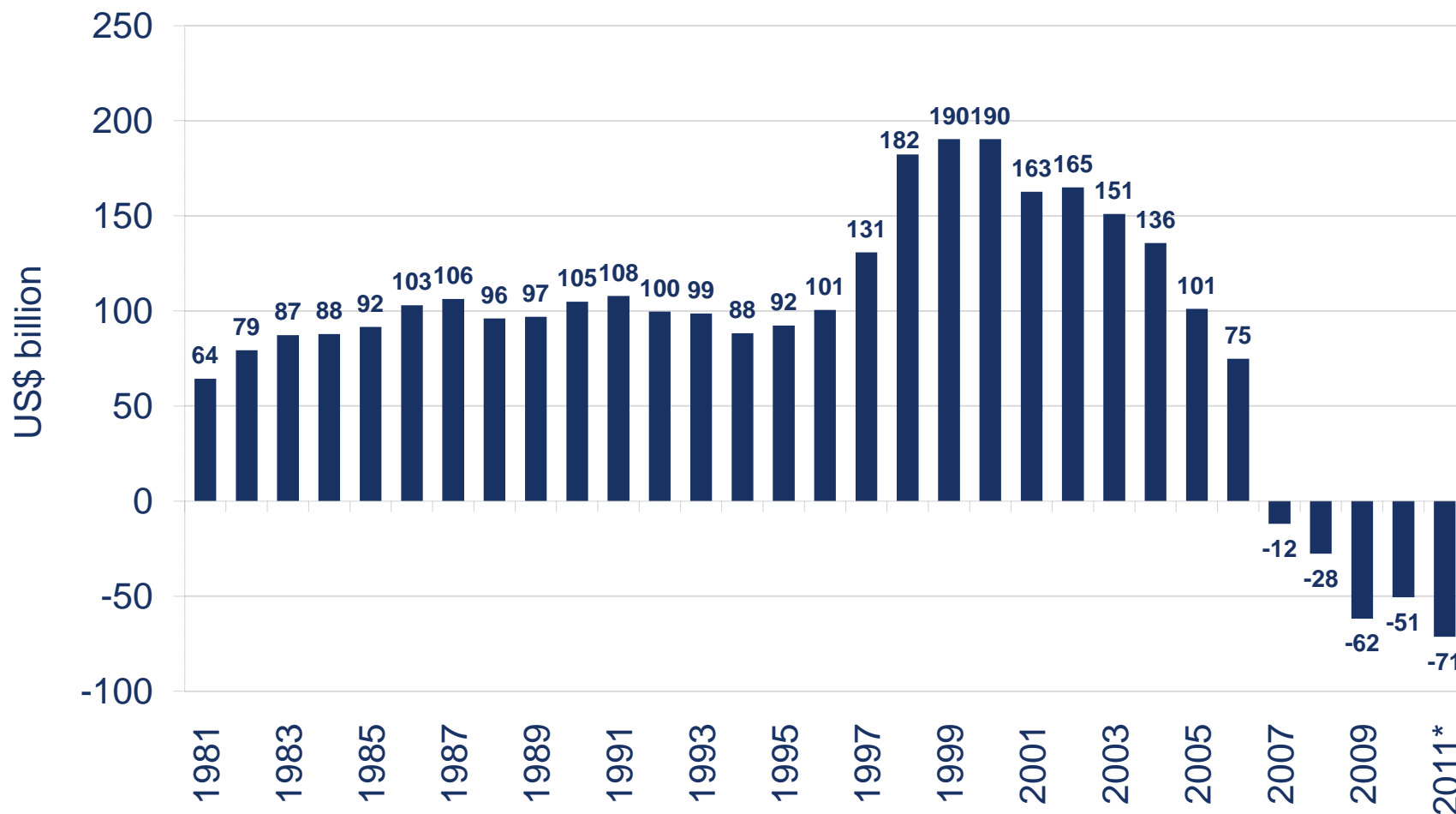
*June 2011

International Reserves (% GDP)*



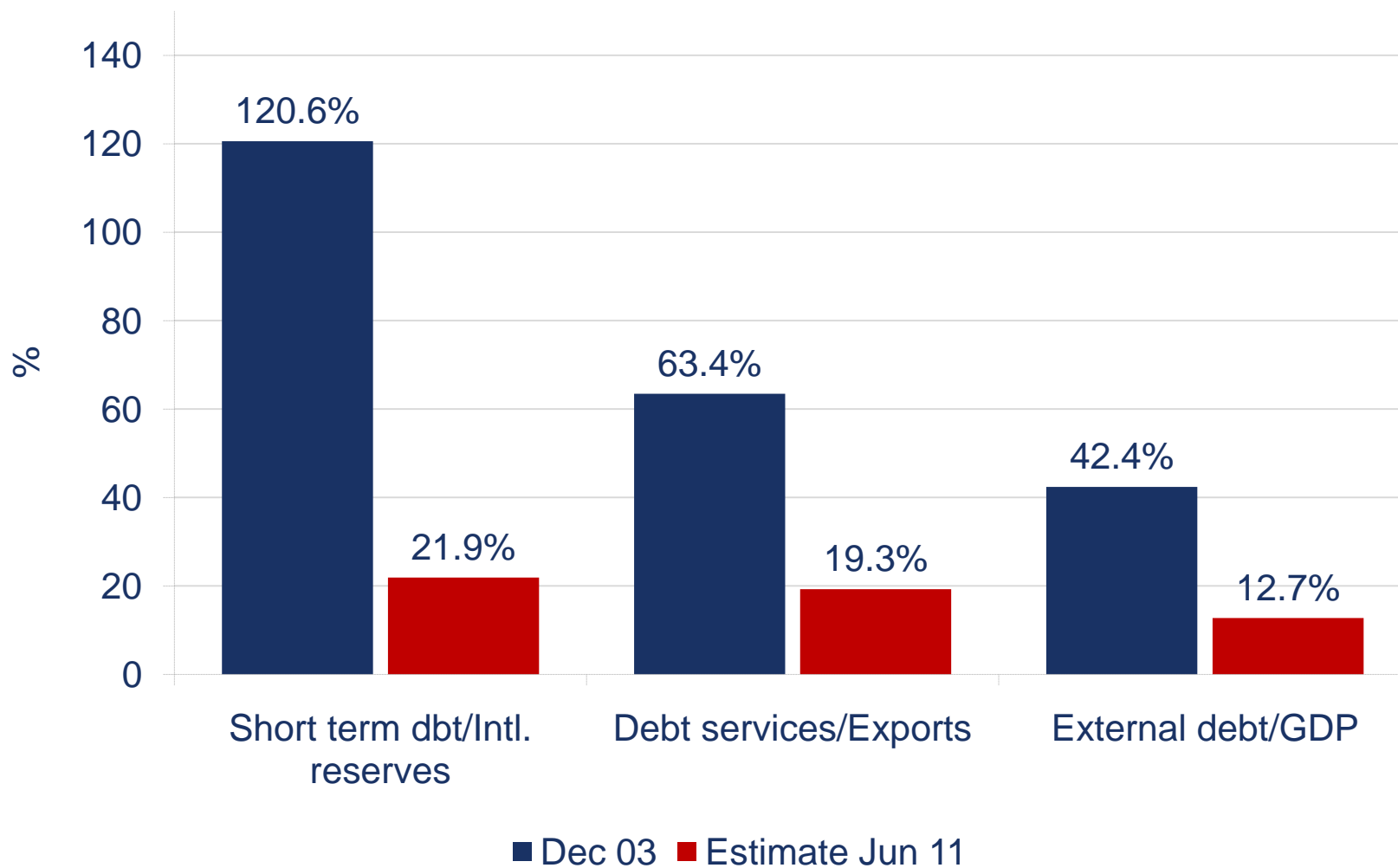
*December 2010

Net External Debt



*Estimate June 2011

External Debt Ratios



Sovereign Risk (CDS)



Main Economic Indicators

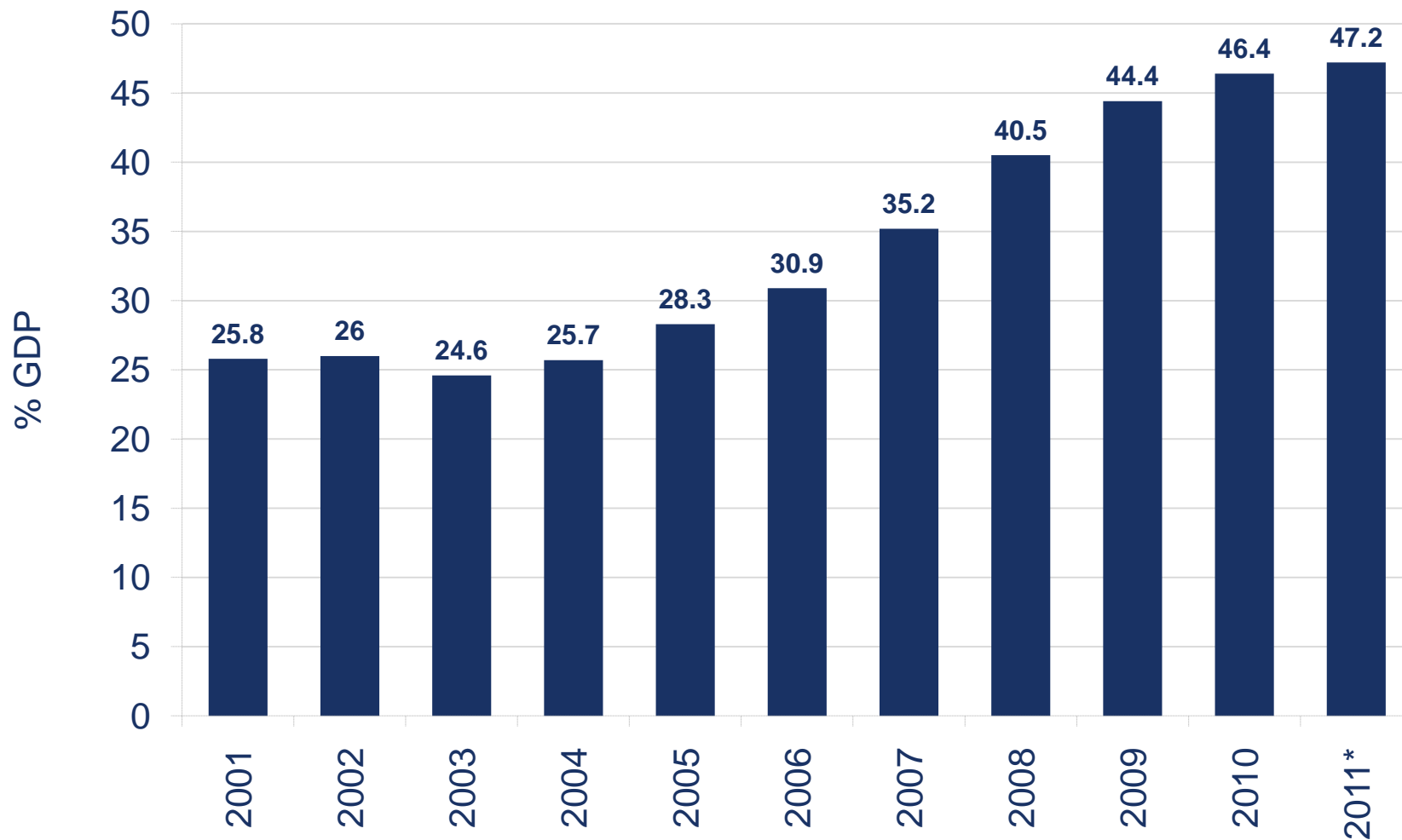
	2004	2005	2006	2007	2008	2009	2010	2011
Gross Domestic Product								
GDP (USD bn)	663,8	882,4	1.088,8	1.366,5	1.650,7	1.598,4	2.089,8	2.334,8 ^{/1}
GDP (USD <i>per capita</i>)	3.665,2	4.812,0	5.867,3	7.282,7	8.705,7	8.347,6	10.814,0	11.977,7 ^{/1}
Real GDP (growth rate)	5,7	3,2	4,0	6,1	5,2	(0,6)	7,5	4,0 ^{/1}
Price consumption	3,8	4,5	5,2	6,1	5,7	4,2	7,0	4,1 ^{/1}
Gross fixed capital formation	9,1	3,6	9,8	13,9	13,6	(10,3)	21,9	6,4 ^{/1}
Economic Activity								
Unemployment rate (year average)	11,5	9,9	10,0	9,3	7,9	8,1	6,7	6,3 ^{/2}
Real payroll (growth rate)	1,6	4,2	5,9	5,8	6,9	3,9	7,4	7,8 ^{/3}
Industrial production (growth rate)	8,3	3,1	2,8	6,0	3,1	(7,4)	10,5	3,6 ^{/3}
Consumer price index (% yoy)	7,6	5,7	3,1	4,5	5,9	4,3	5,9	6,9 ^{/4}
Fiscal (consolidated public sector, %GDP)								
Primary balance	3,7	3,8	3,2	3,3	3,4	2,0	2,8	3,3 ^{/3}
Public sector net debt	50,6	48,4	47,3	45,5	38,5	42,8	40,2	39,7 ^{/5}
Balance of payments								
Exports (USD bn)	96,7	118,5	137,8	160,6	197,9	153,0	201,9	250,0 ^{/1}
Imports (USD bn)	(62,8)	(73,6)	(91,4)	(120,6)	(173,0)	(127,7)	(181,6)	(230,0) ^{/1}
Current account (USD bn)	11,7	14,0	13,6	1,6	(28,2)	(24,3)	(47,4)	(60,0) ^{/1}
Current account (%GDP)	1,8	1,6	1,3	0,1	(1,7)	(1,5)	(2,3)	(2,6) ^{/1}
Foreign direct investment (USD bn)	18,1	15,1	18,8	34,6	45,1	25,9	48,4	55,0 ^{/1}
Foreign direct investment (%GDP)	2,7	1,7	1,8	2,5	2,8	1,6	2,3	2,4 ^{/1}
International reserves (USD bn)	52,9	53,8	85,8	180,3	193,8	238,5	288,6	351,0 ^{/6}

/1 Central Bank forecast /4 12 months until July

/2 Average Jan-Jun /5 In Jun

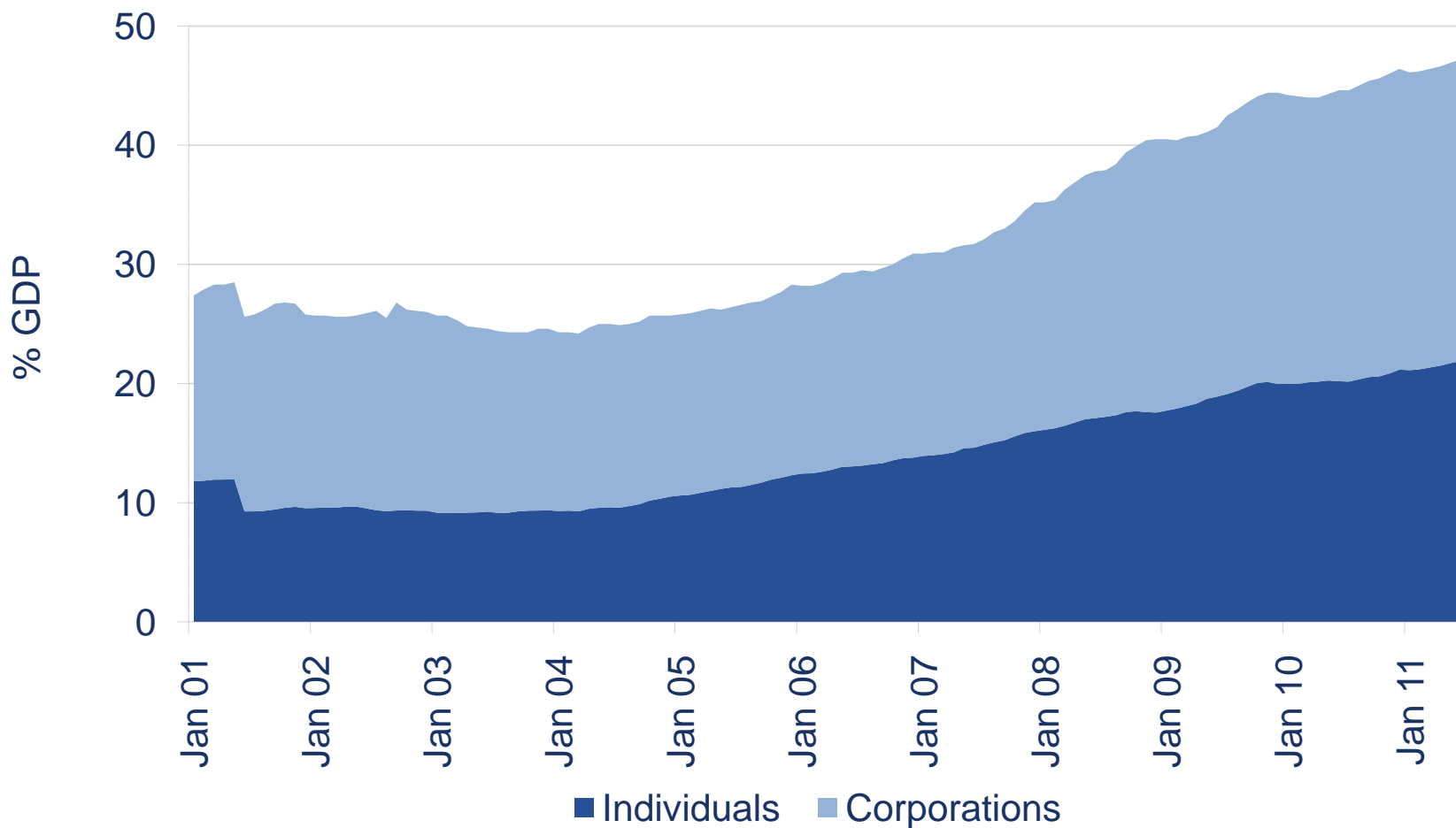
/3 12 months until Jun /6 On Aug 11th

Credit / GDP



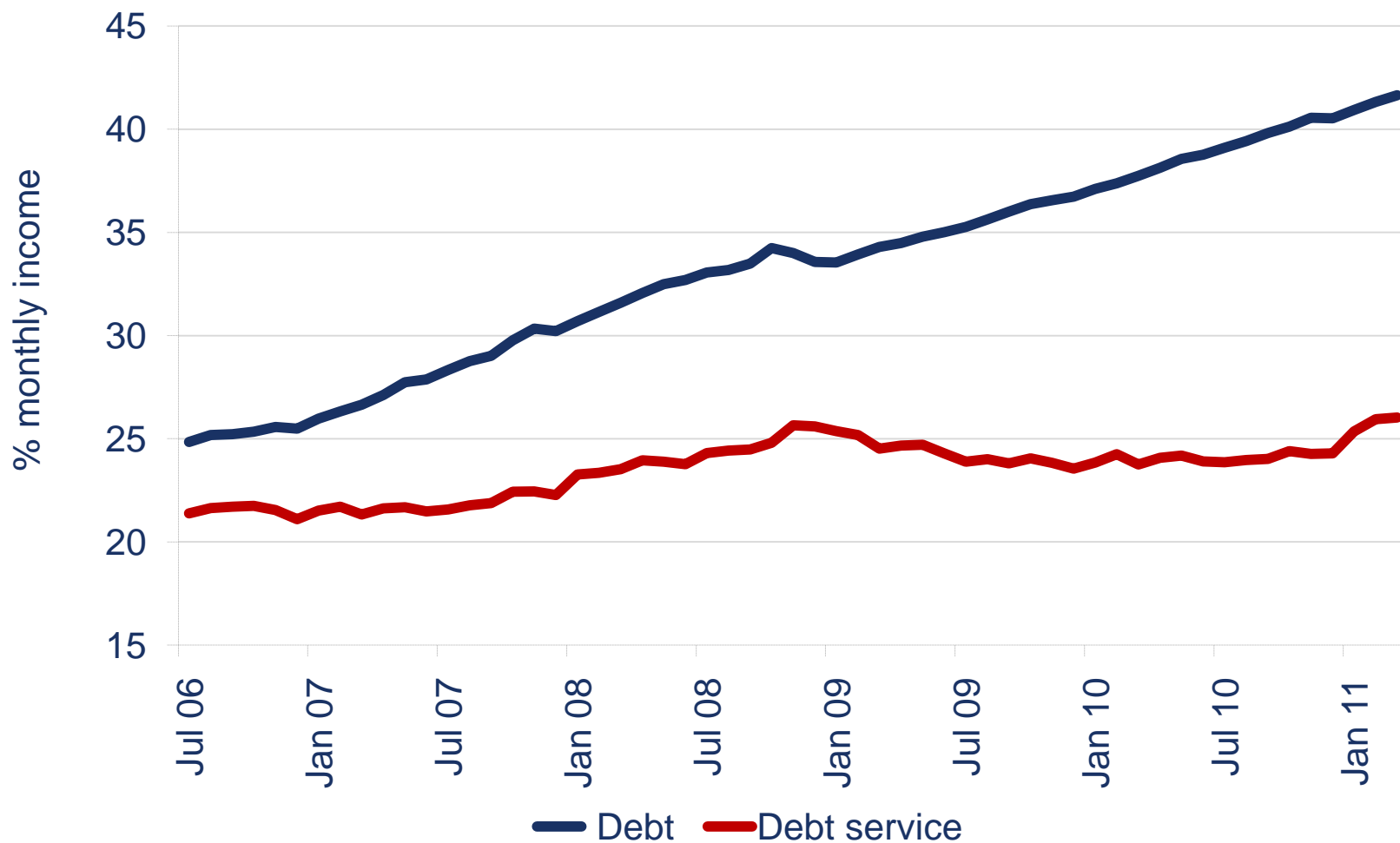
*June 2011

Total Credit



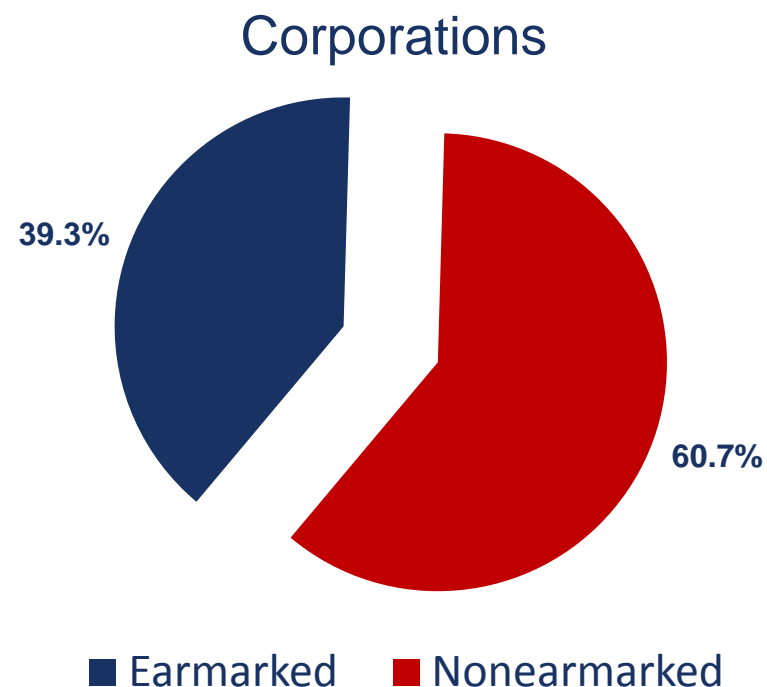
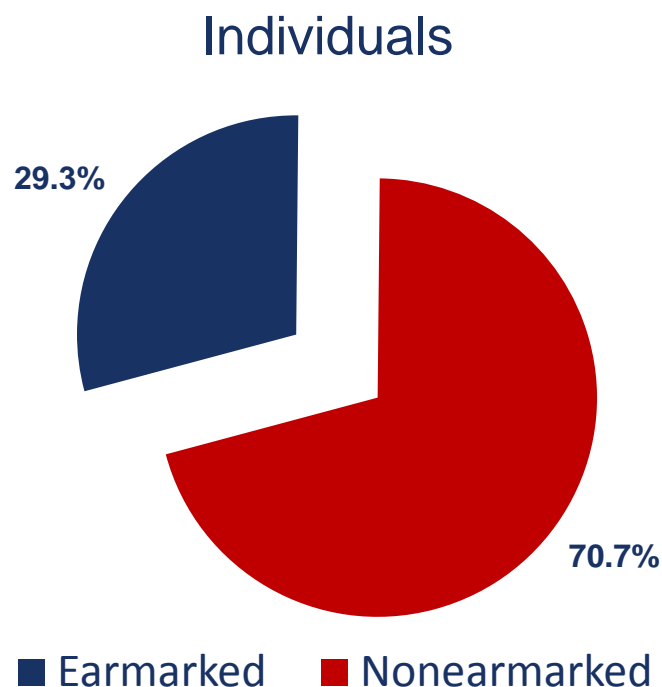
data until June 2011

Household Indebtedness

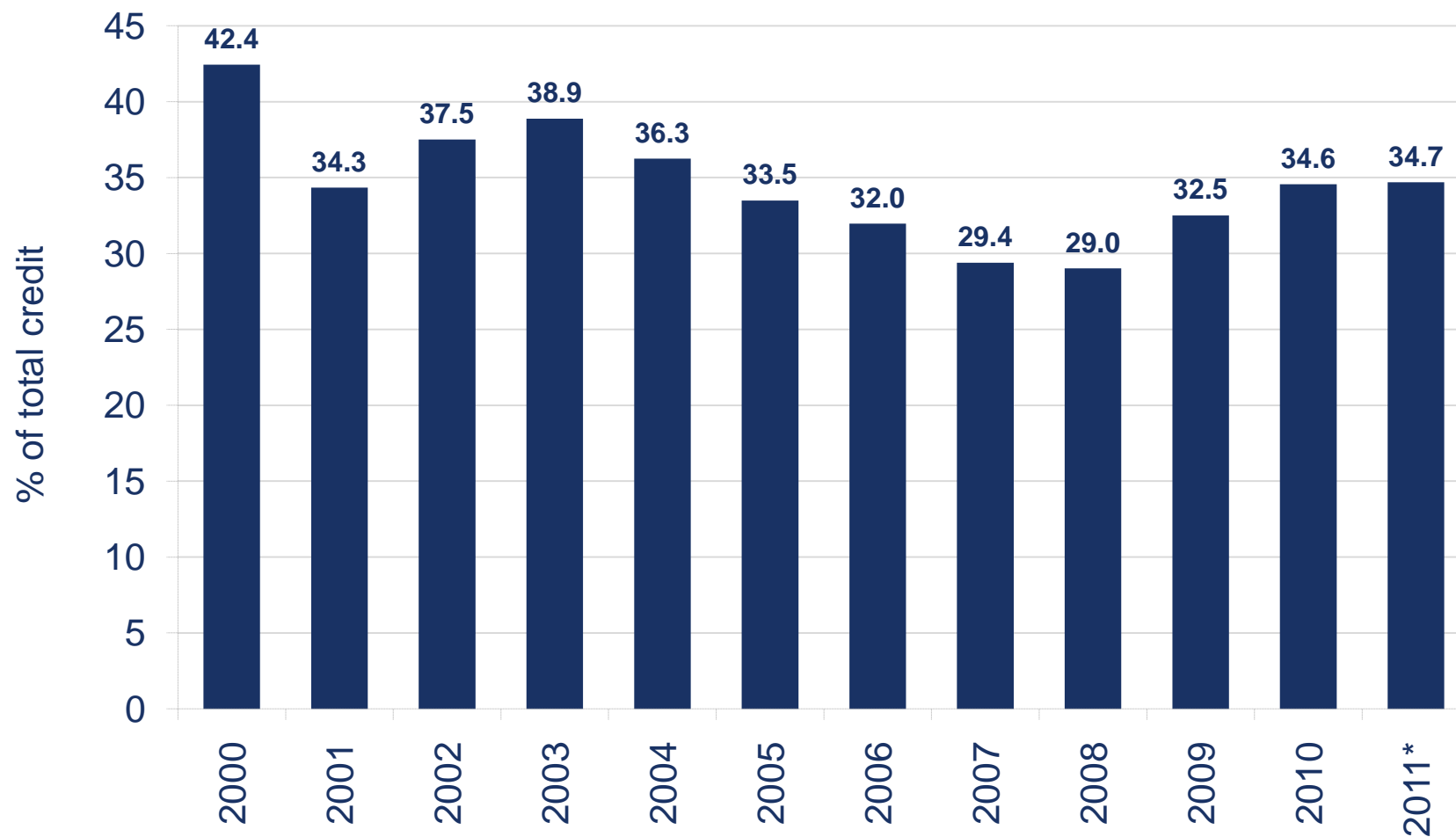


Credit – Earmarked and Nonearmarked

June 2011

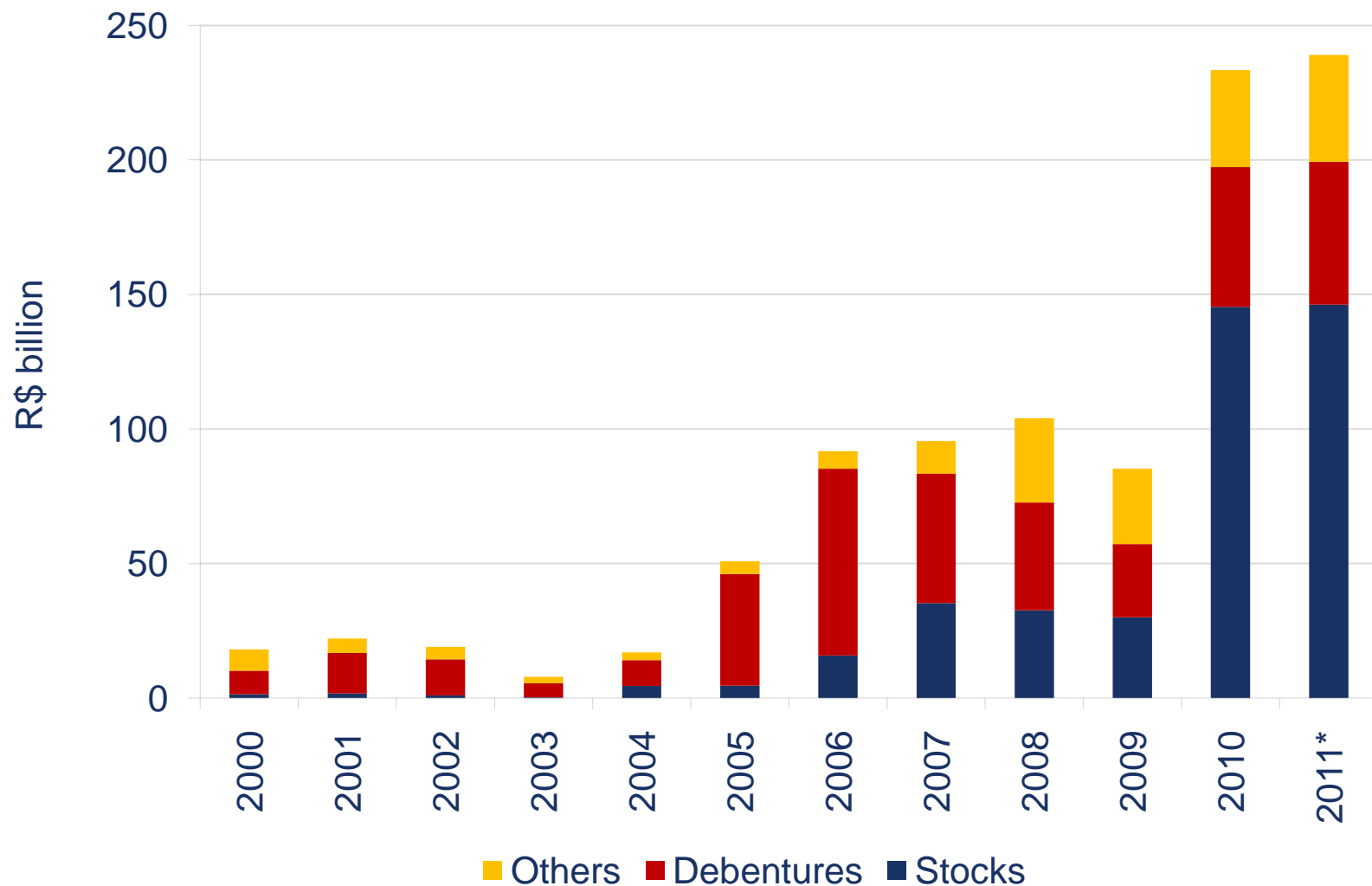


Earmarked / Total Credit



*June 2011

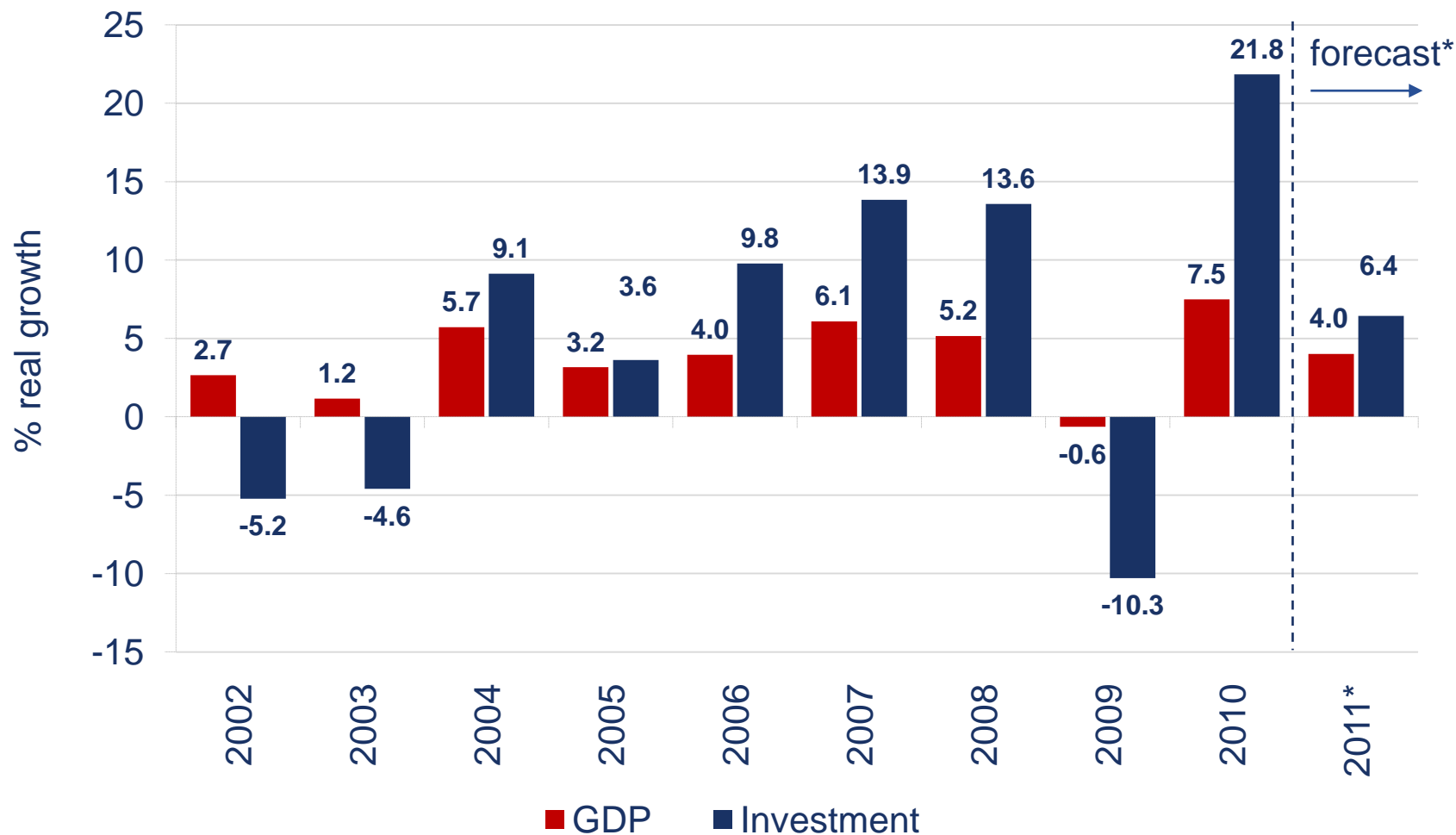
Capital Market – Primary Issues



* June 2011 (12 months)

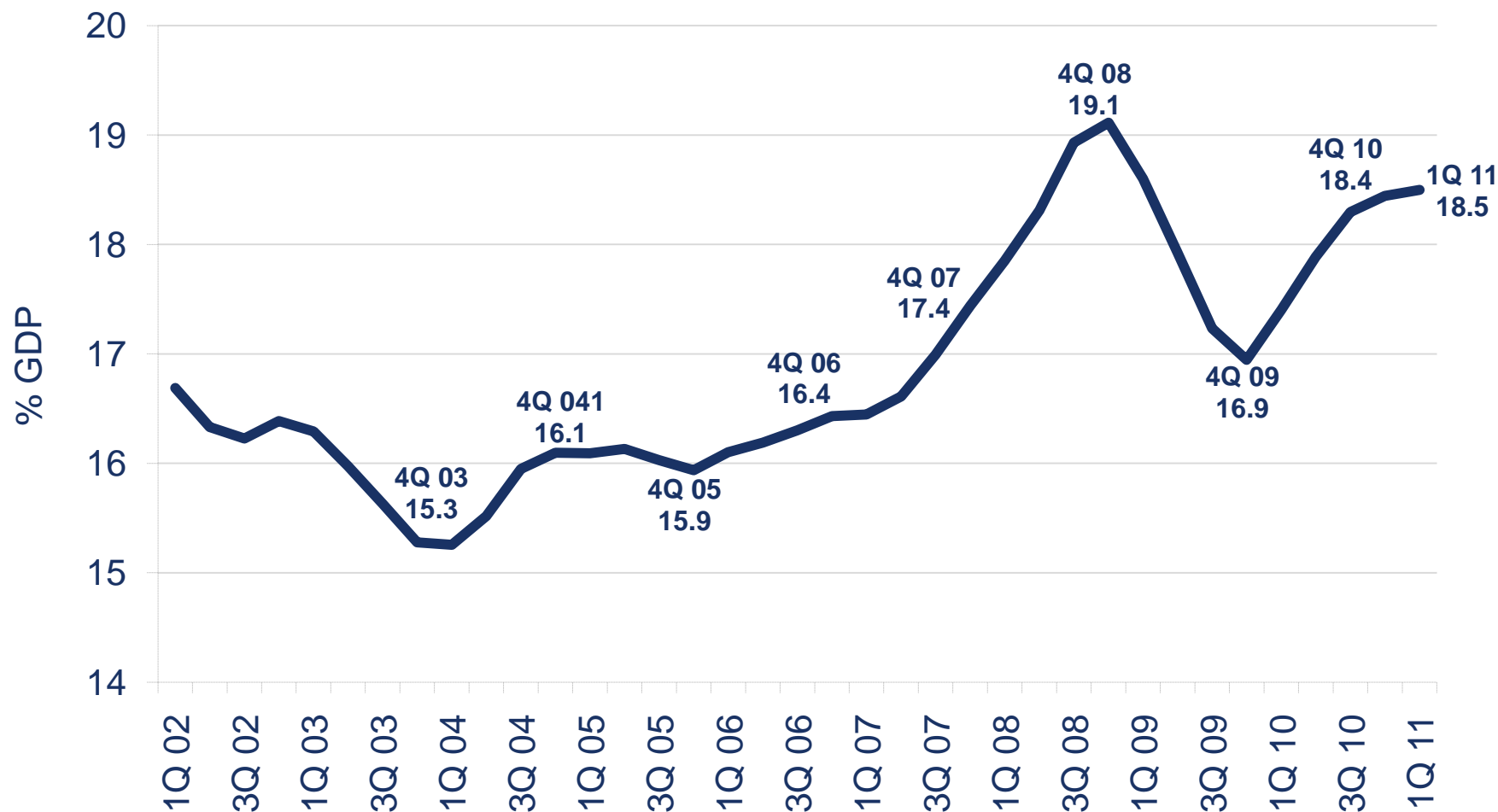
GDP and Investment

Fixed Capital Investment



*Forecast from Central Bank of Brazil (Inflation Report – June 2011)

Fixed Capital Investment



Investment Prospects - Industry

	R\$ billion		Av. Annual
	2006-2009	2011-2014	Growth %
Oil and gas	205	378	13.0
Mining	60	62	0.9
Steel	28	33	3.2
Petrochemical	22	40	12.3
Automobile	25	33	5.6
Electric/Electronics	20	29	8.2
Pulp and paper	18	28	8.7
Textile	9	12	6.8
Total	387	614	9.7

Feb 2011

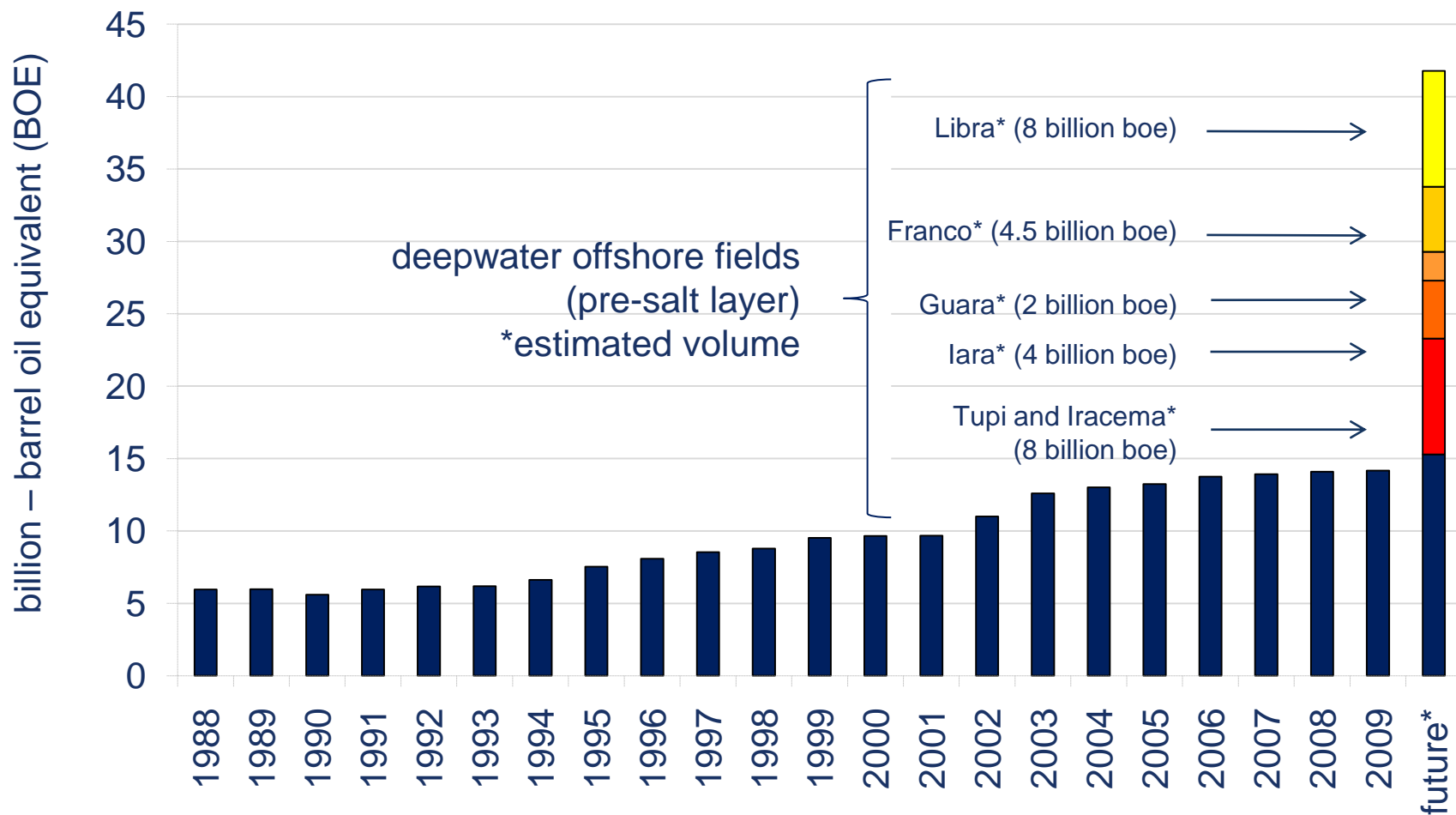
Investment Prospects - Infrastructure

	R\$ billion		Av. Annual
	2006-2009	2011-2014	Growth %
Electricity	104	139	6.0
Telecommunication	62	72	2.8
Sanitation	26	41	9.4
Logistics	55	129	18.6
Railways	20	60	24.7
Highways	30	51	11.4
Ports	5	18	26.6
Total	247	380	9.0

Feb 2011

Brazilian Oil Reserves

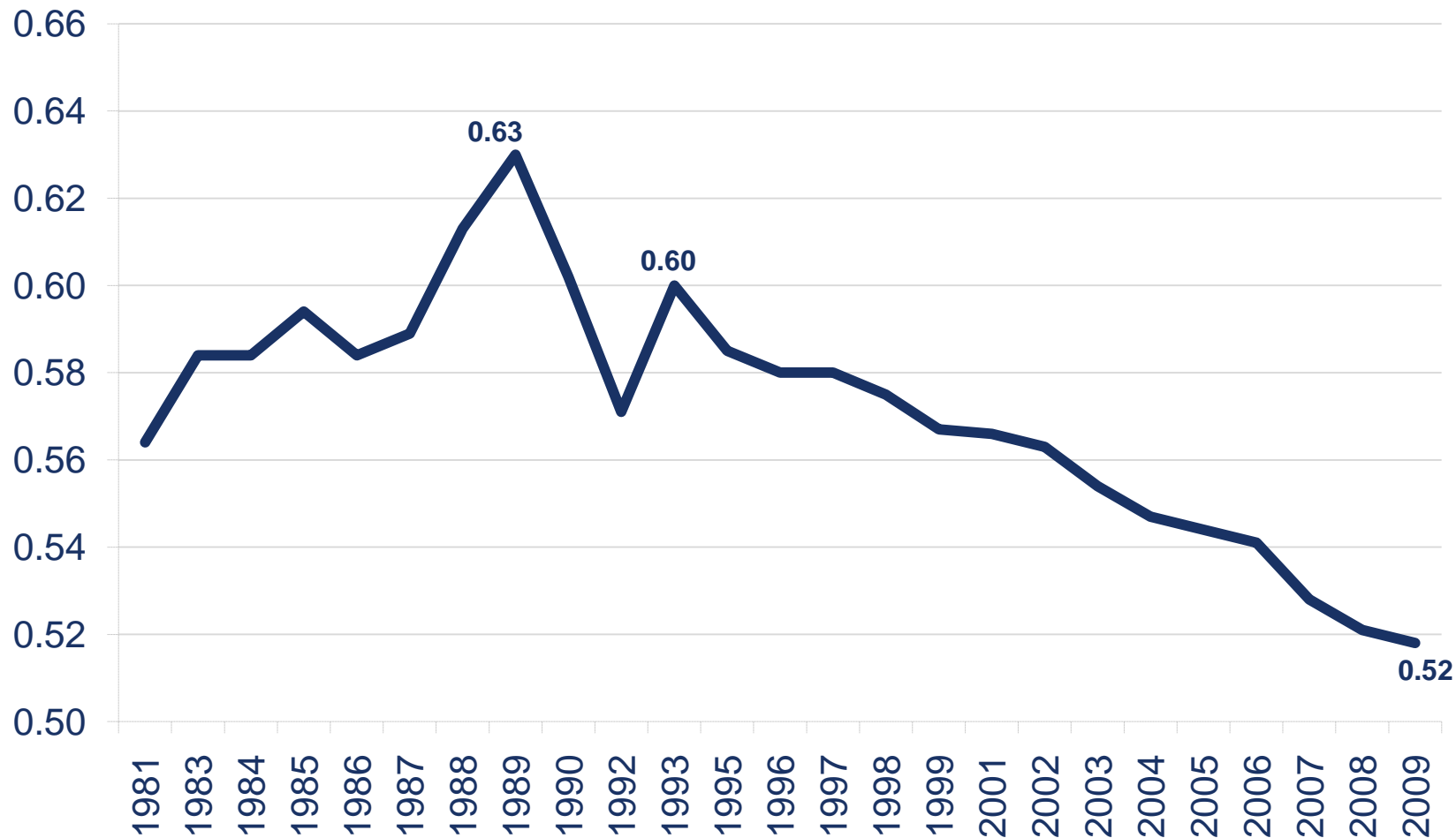
crude oil, NGL and natural gas



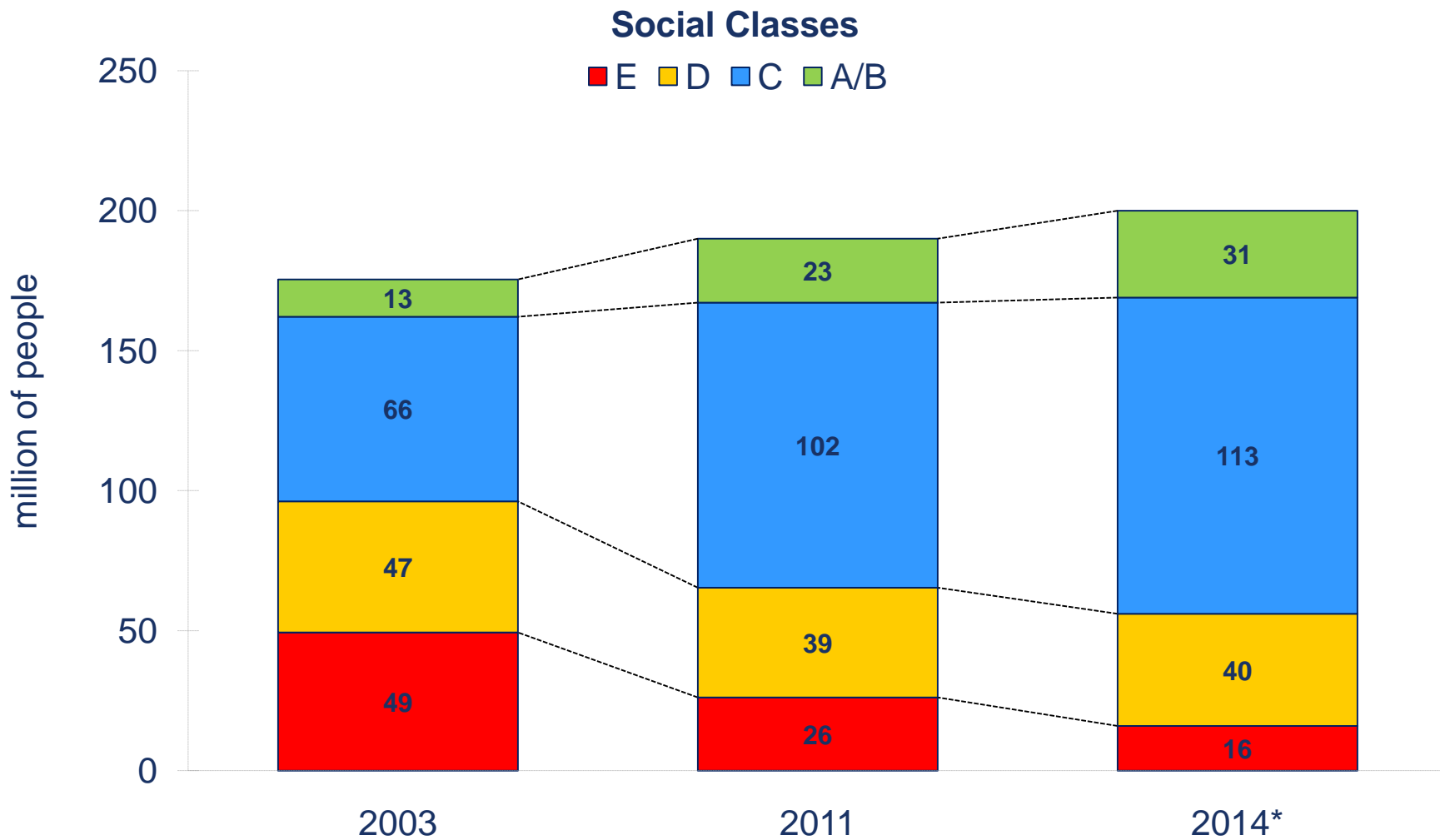
Social Development

- Both macroeconomic and inclusion policies have led to marked improvement in living conditions.
- A significant share of low income groups joined the middle class.

Gini Coefficient



Social Mobility



*FGV forecast

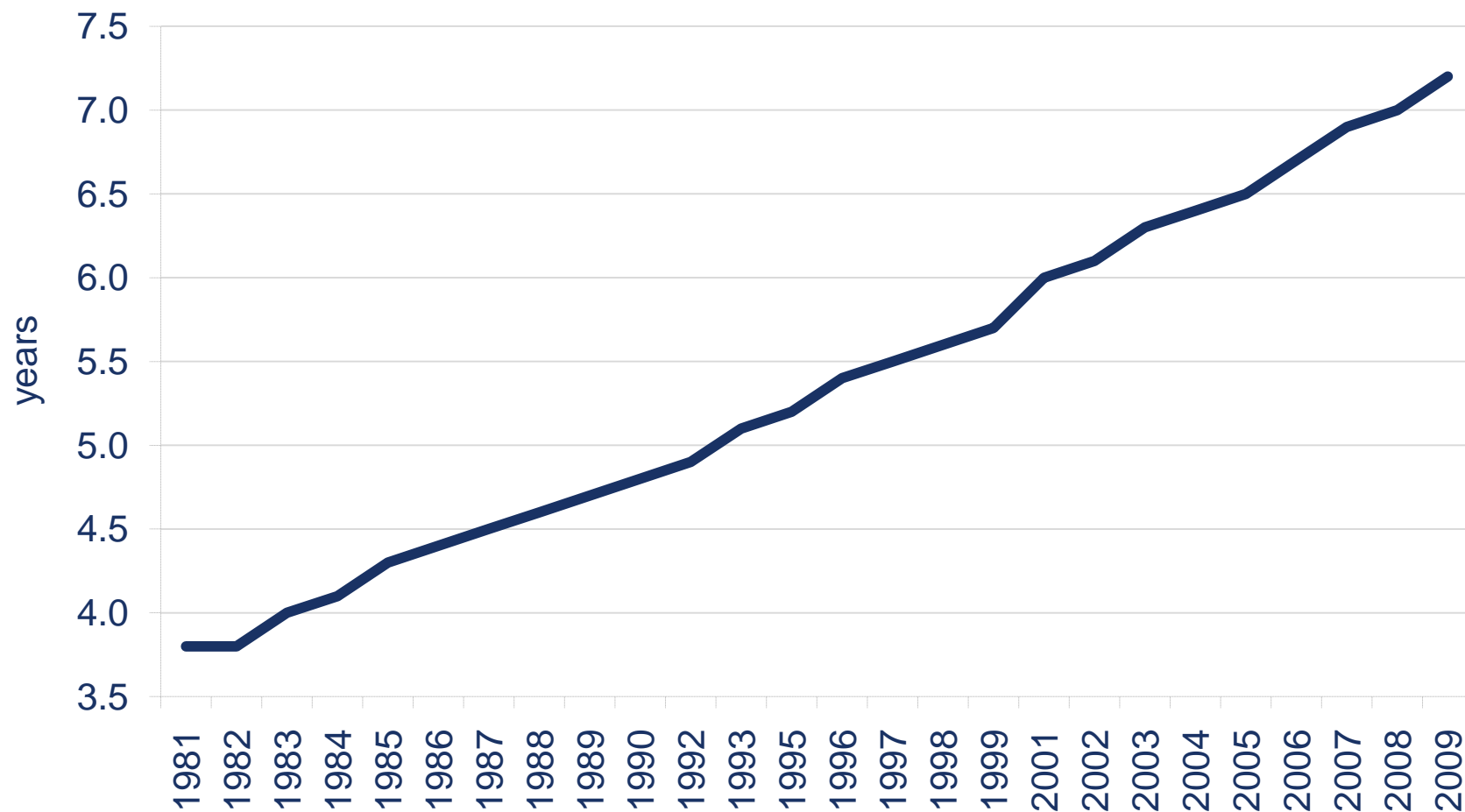
Social Mobility

Social Classes (% Composition)

	2003	2009	2014*
A/B	7.6	10.6	15.5
C	37.6	50.4	56.5
D	26.7	23.6	20.0
E	28.1	15.3	8.0
Total	100.0	100.0	100.0

* FGV forecast

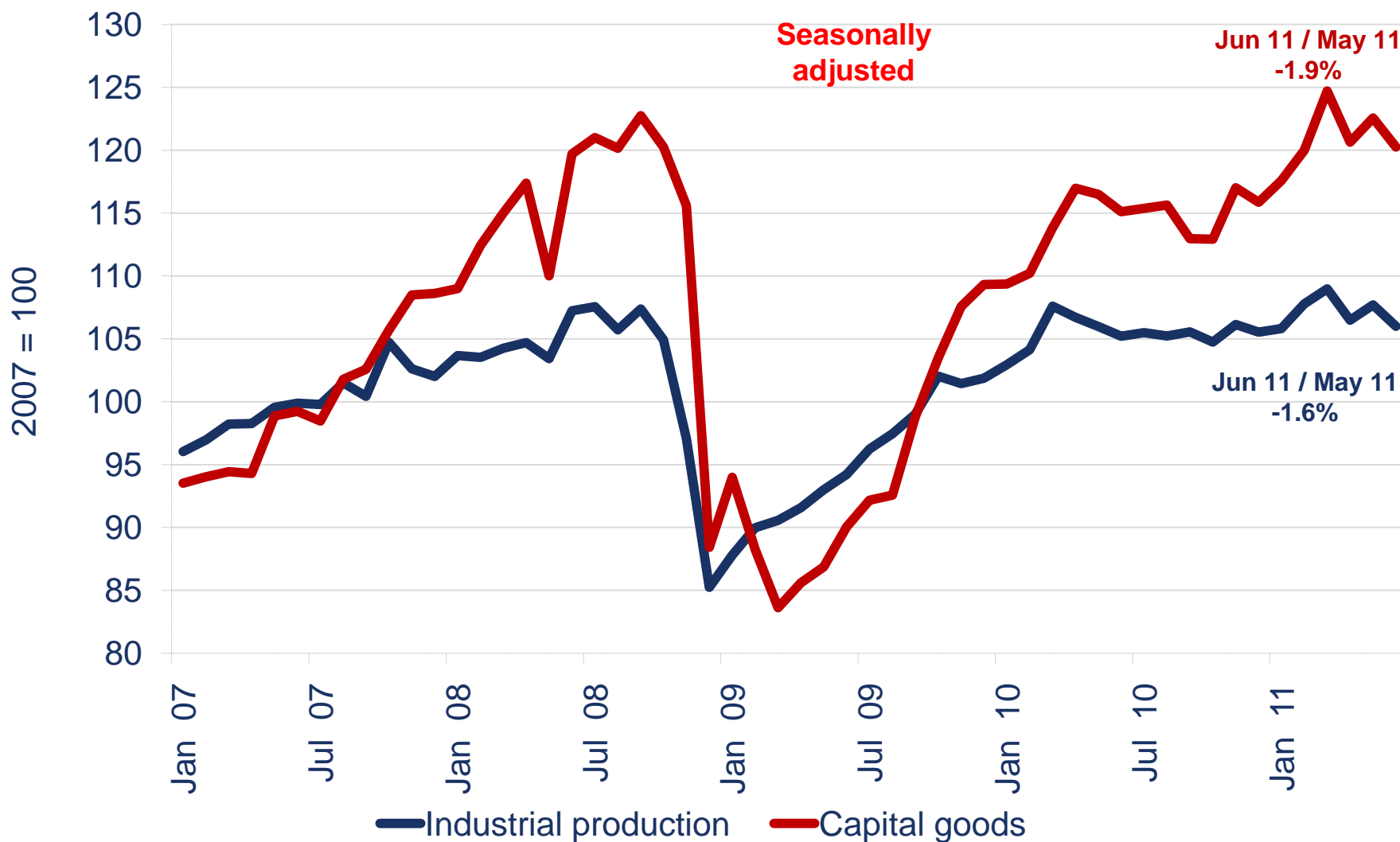
Years of Schooling*



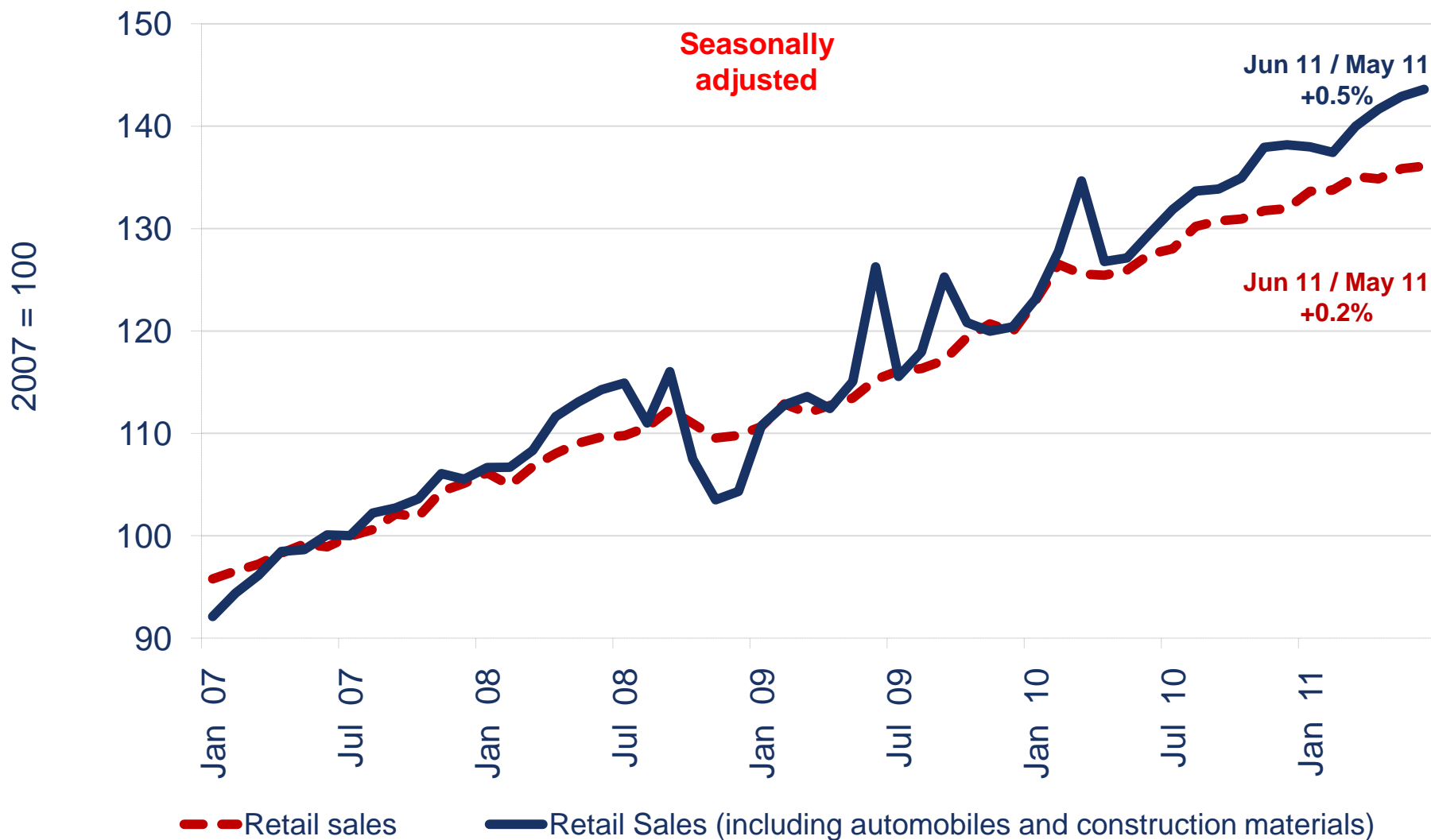
*people older than 24 years-old

Recent Economic Indicators

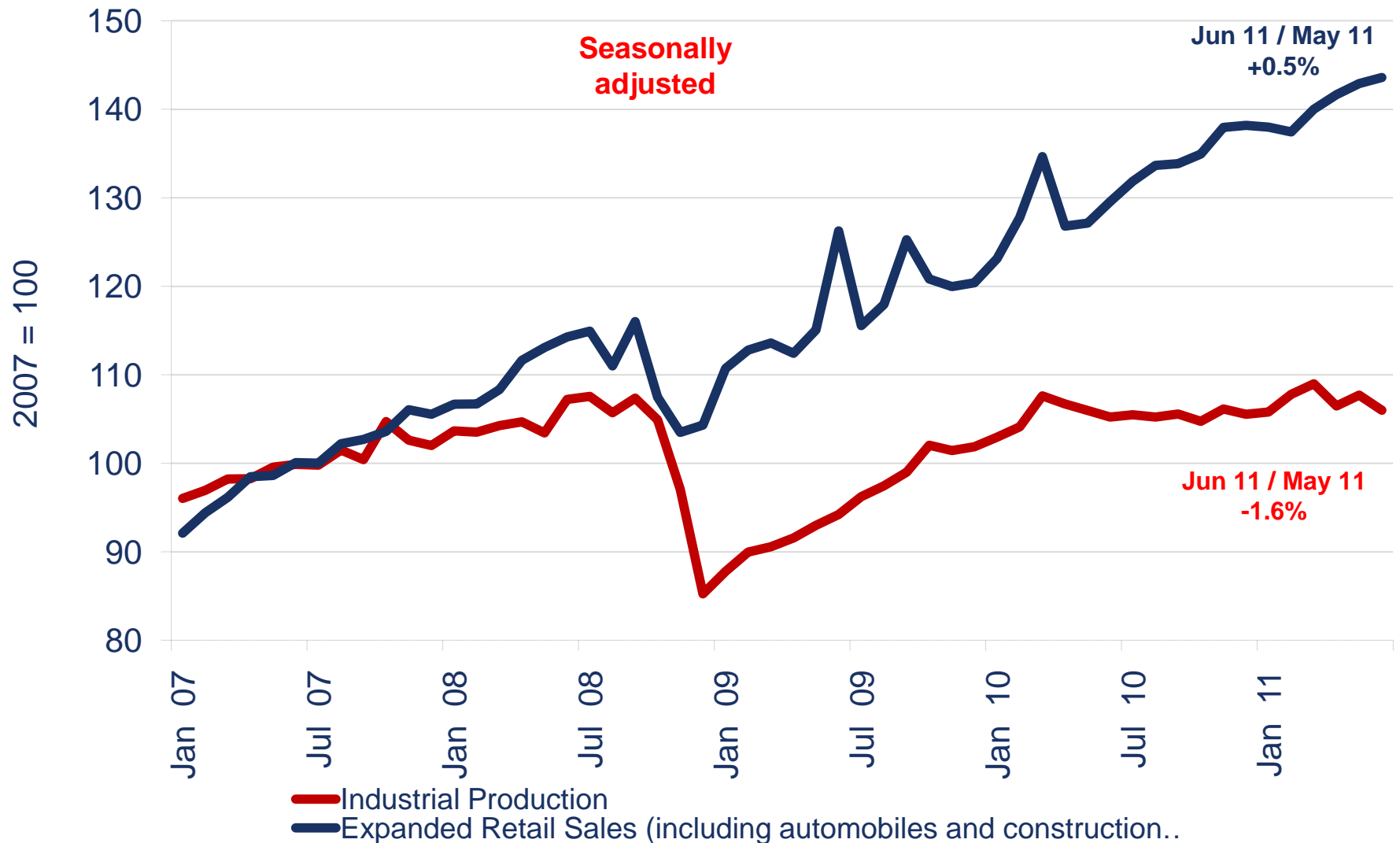
Industrial Production



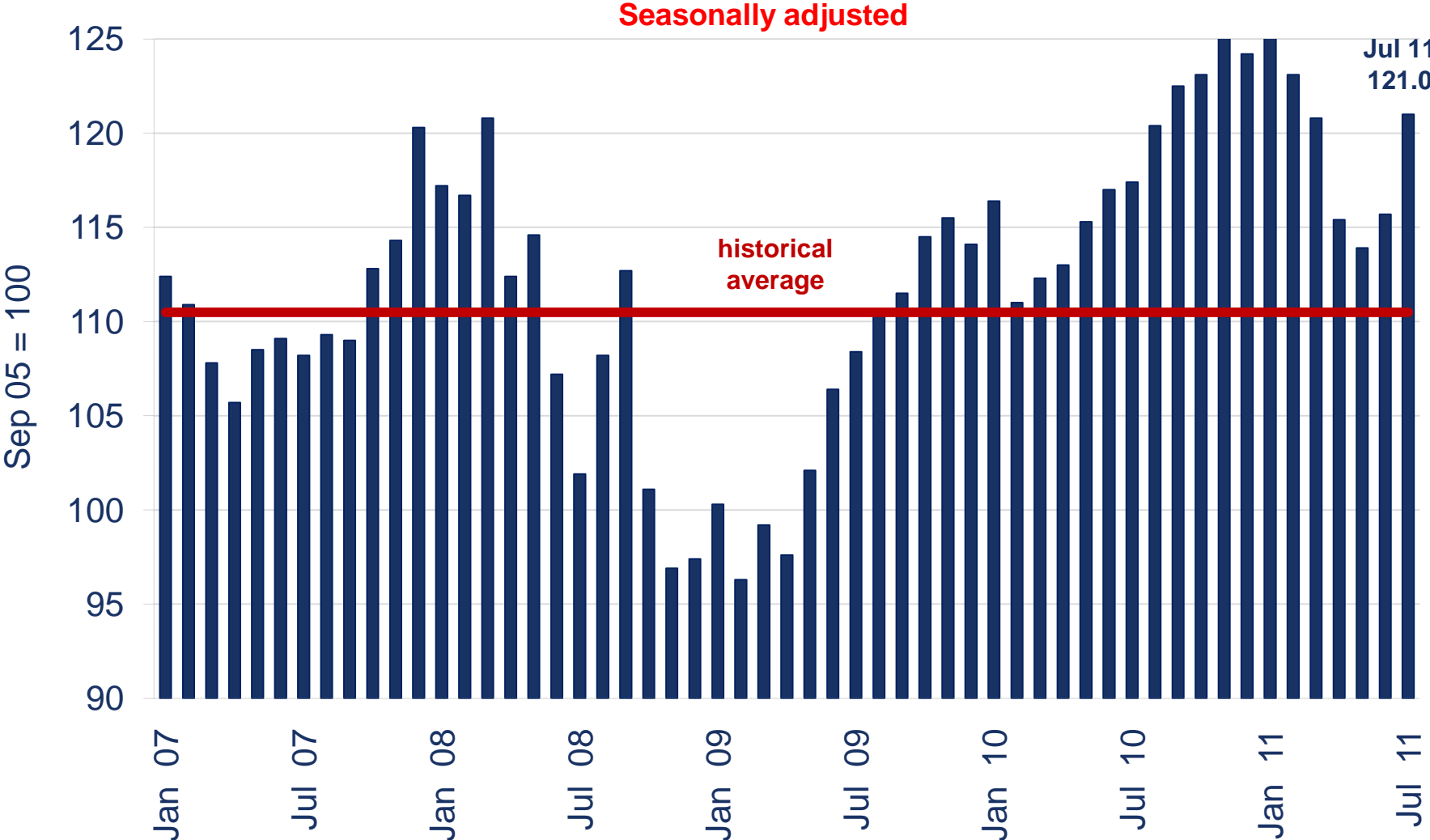
Retail Sales



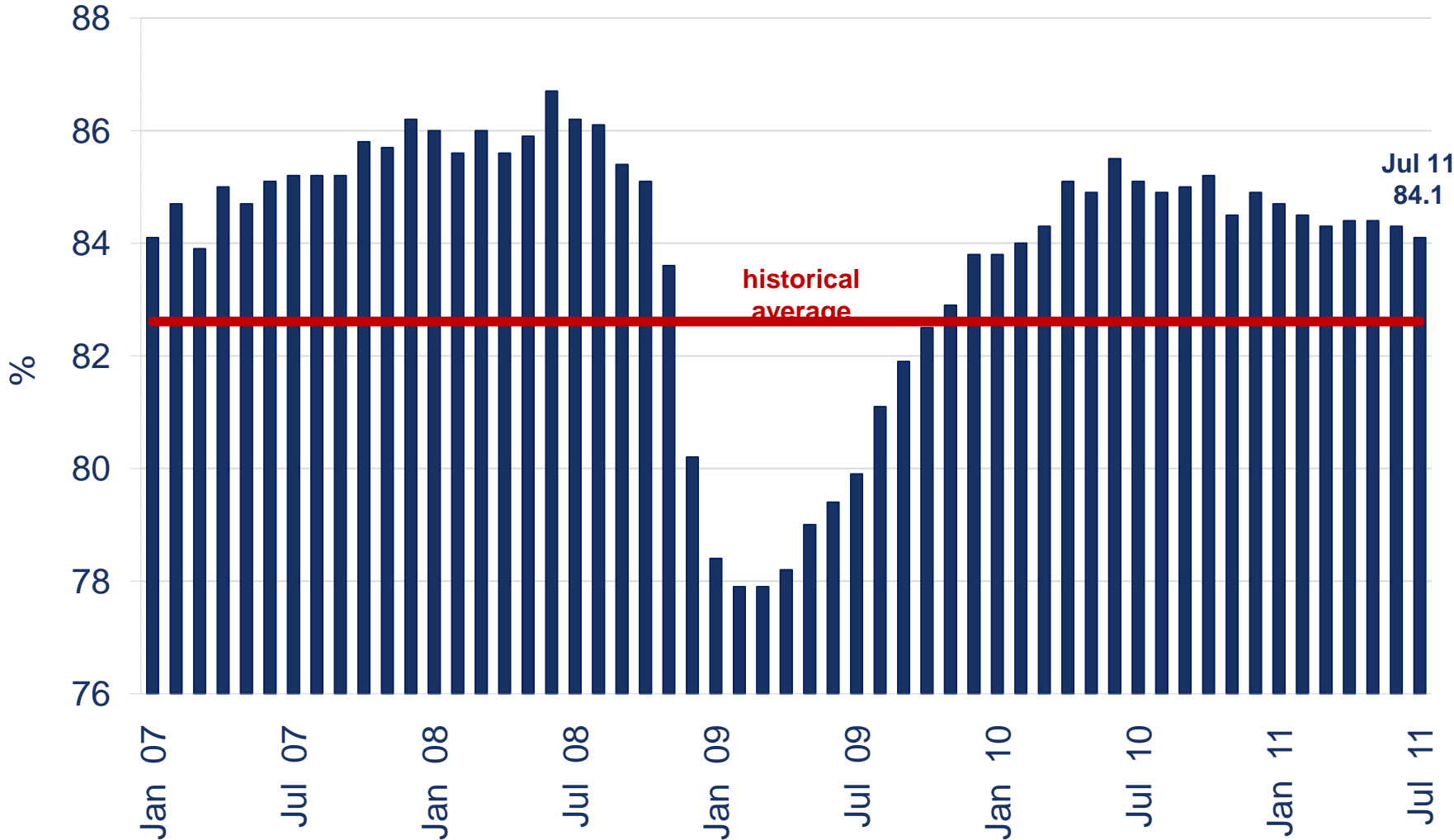
Industrial Production vs. Retail Sales



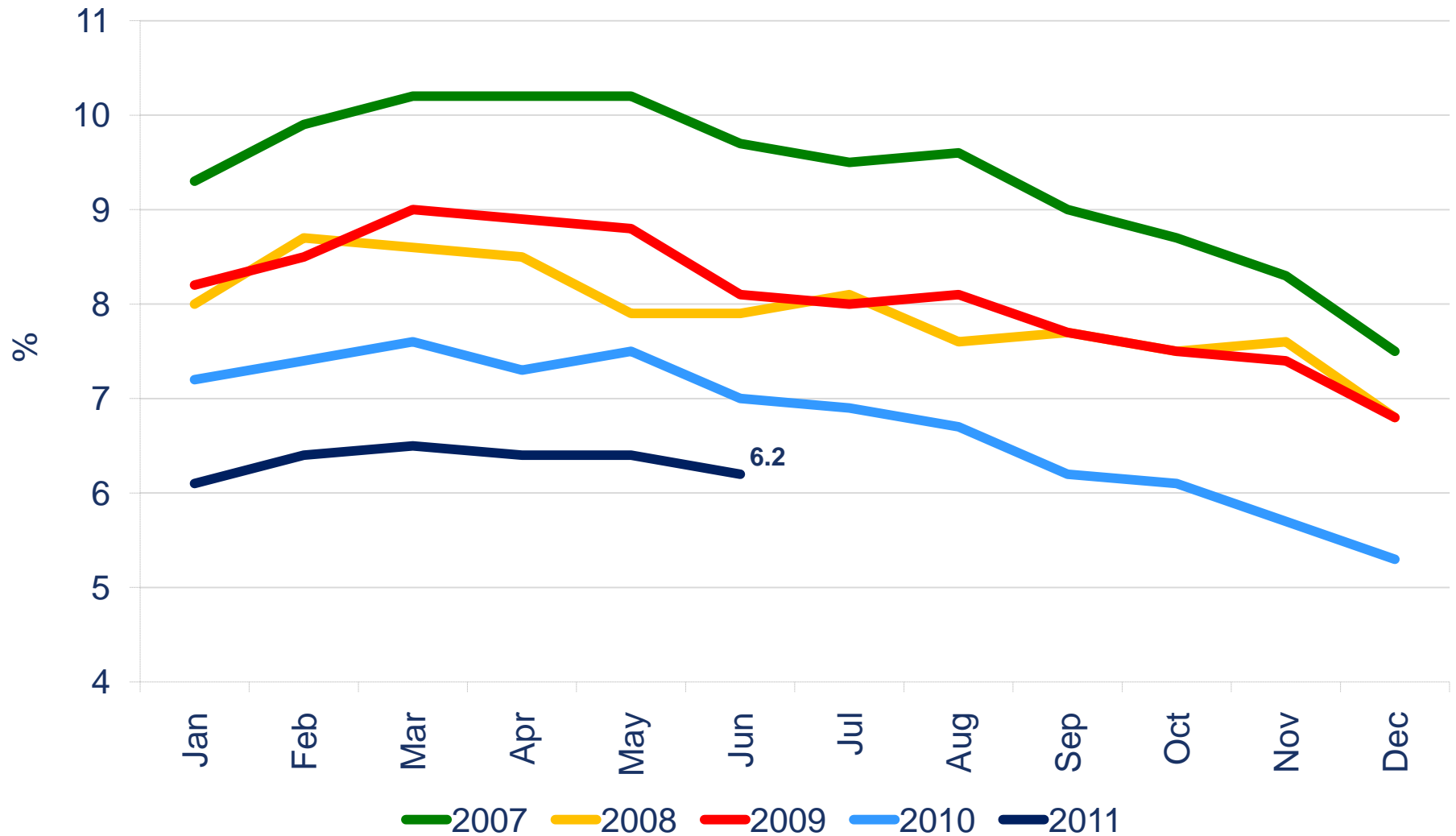
Consumer Confidence



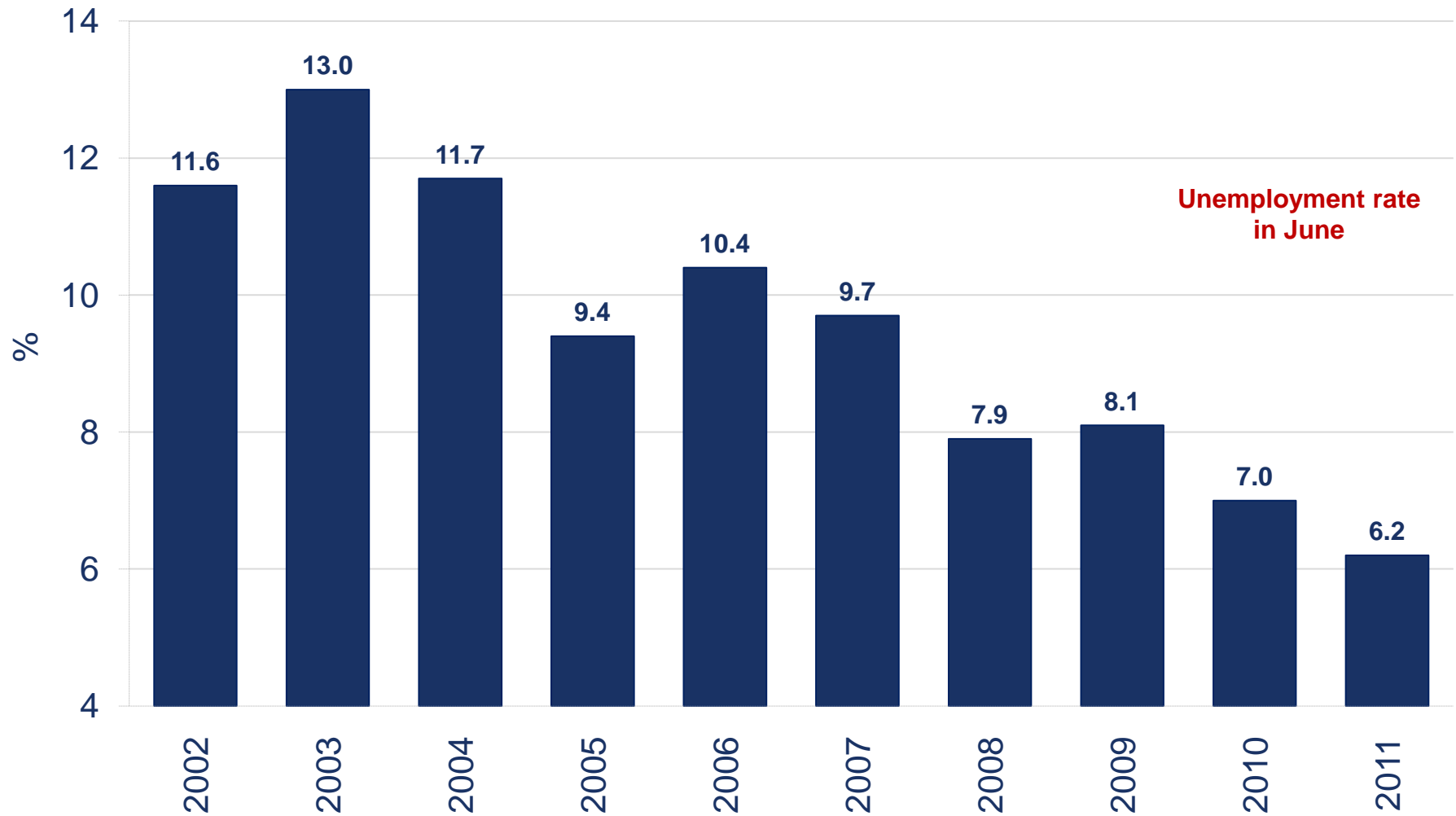
Industrial Capacity Utilization



Unemployment Rate

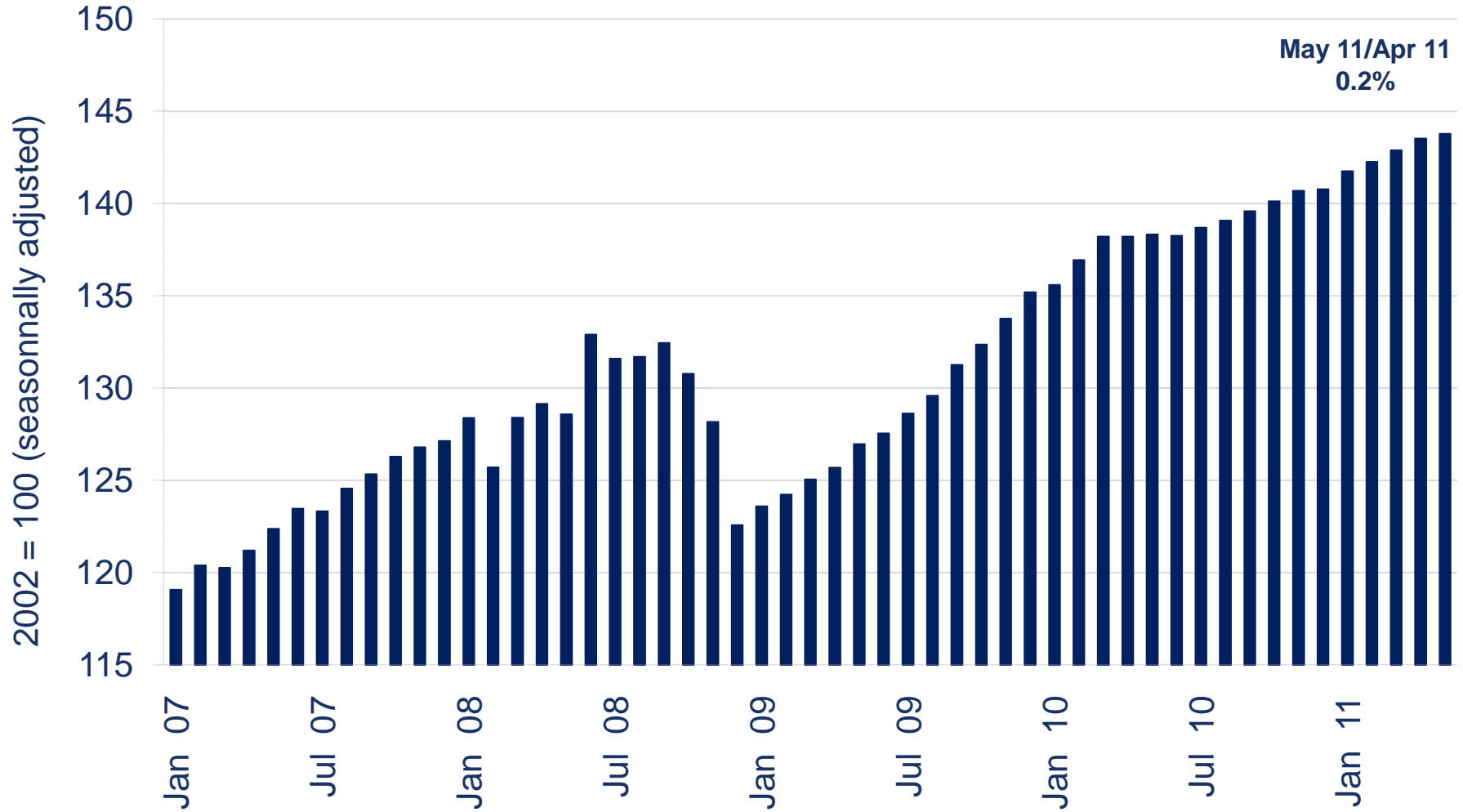


Unemployment Rate



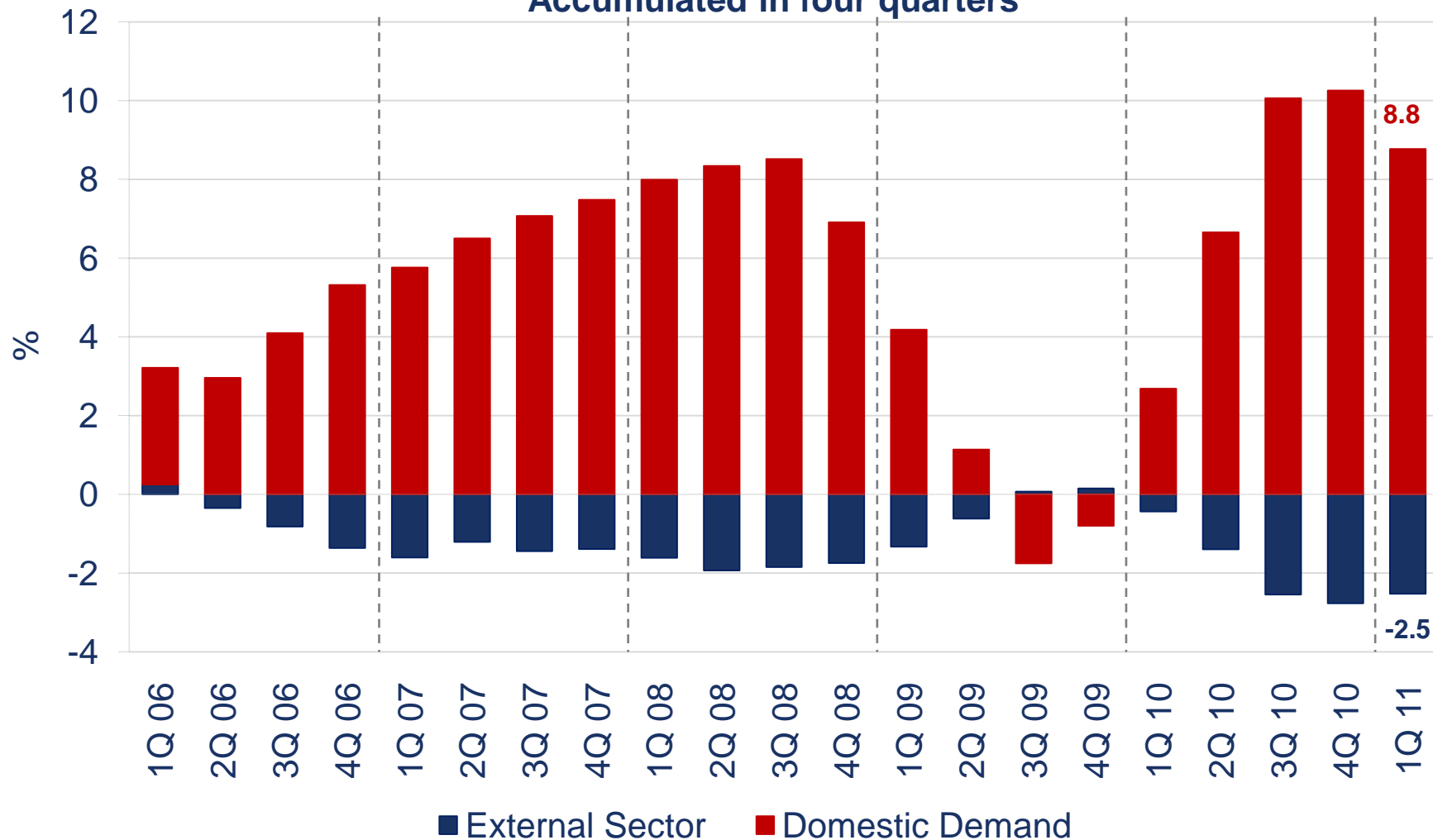
Leading Indicator

IBC-Br: Brazilian Economic Activity Index

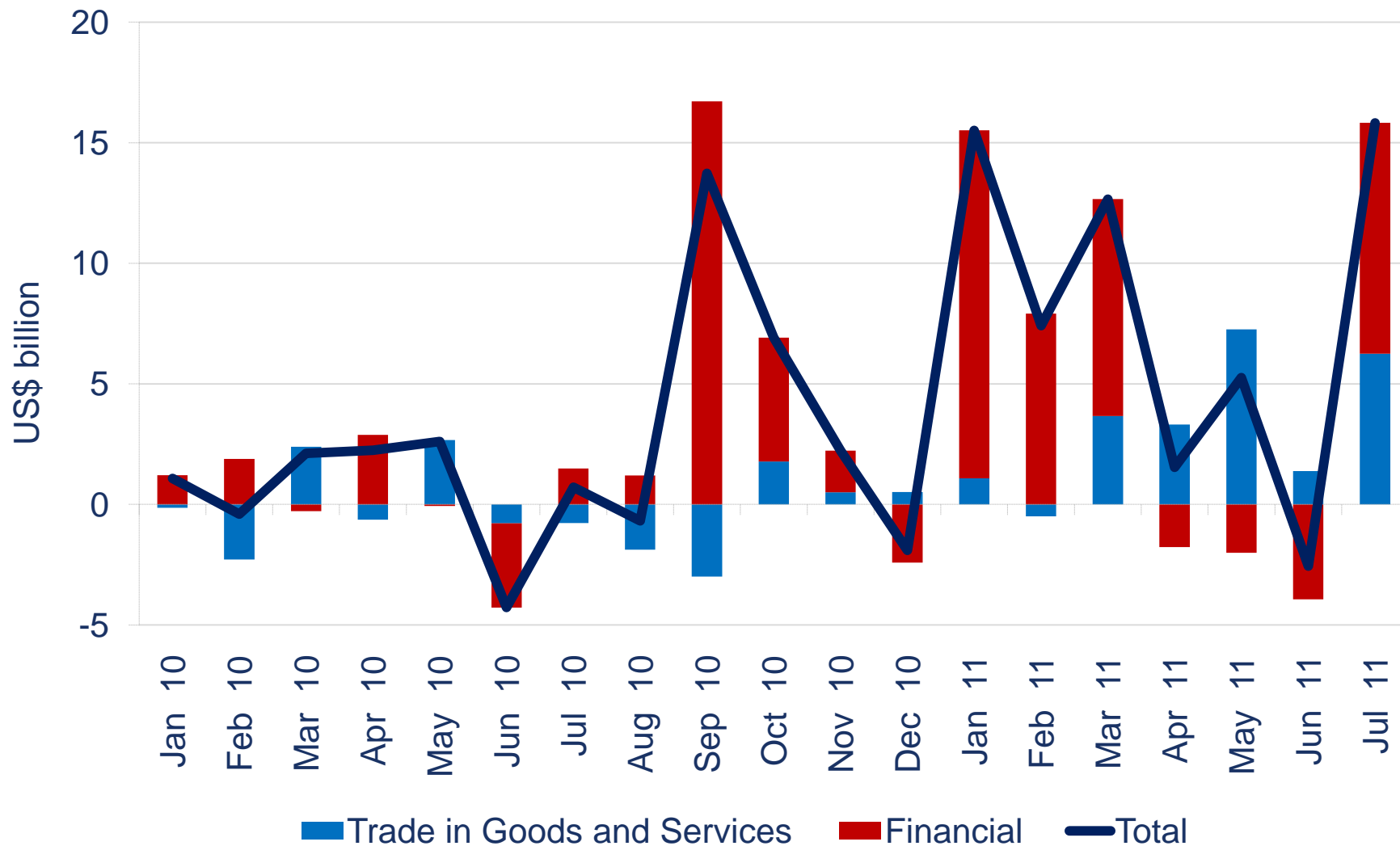


Contribution to GDP

Accumulated in four quarters

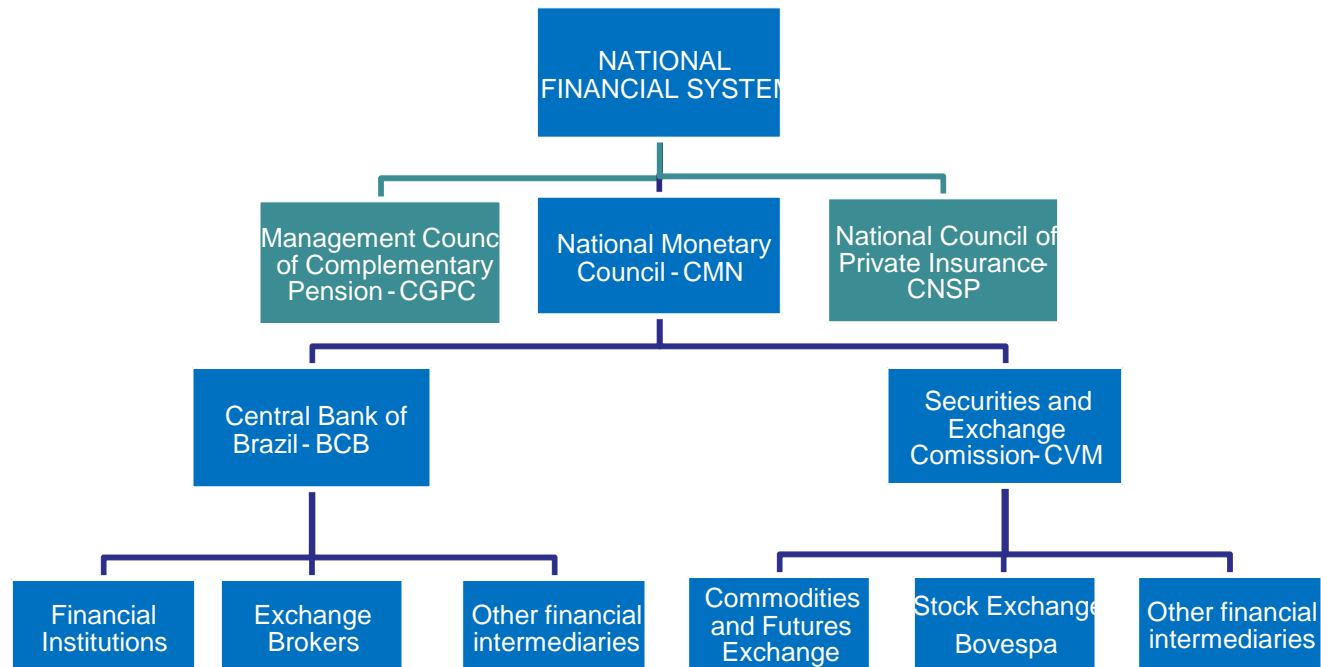


FX Inflows (monthly data)



The National Financial System

The National Financial System

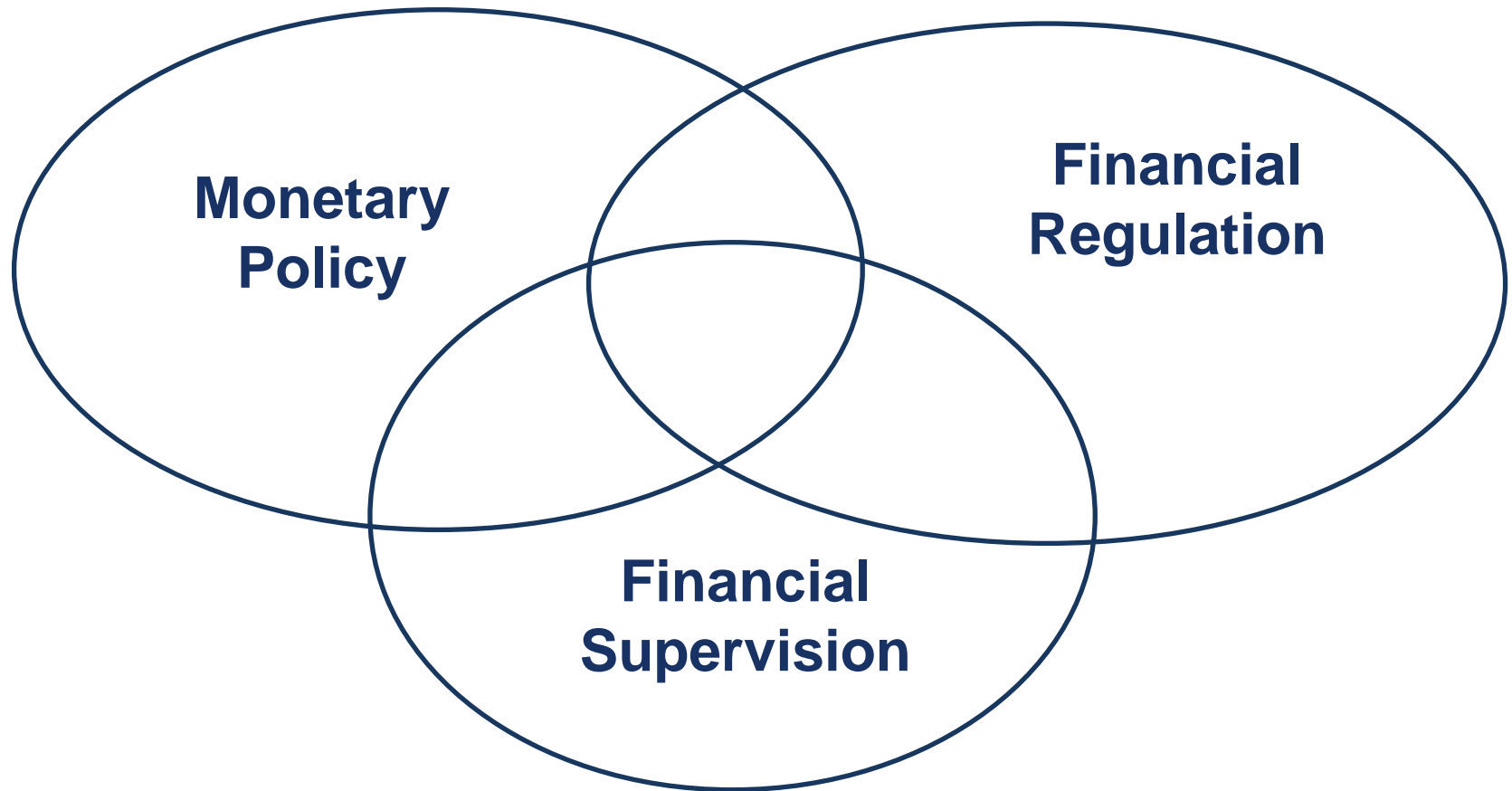


National Monetary Council (CMN)

- Composed by the Minister of Finance, the Minister of Planning, Budget and Management and the Governor of the Central Bank of Brazil
- Establishes the inflation target for monetary policy, prudential rules and credit policy
- The Central Bank of Brazil is the financial supervisory authority

Central Bank of Brazil – Main Activities

**Wide scope of Central Bank's authority helps
policy coordination**



Number of Institutions by Type

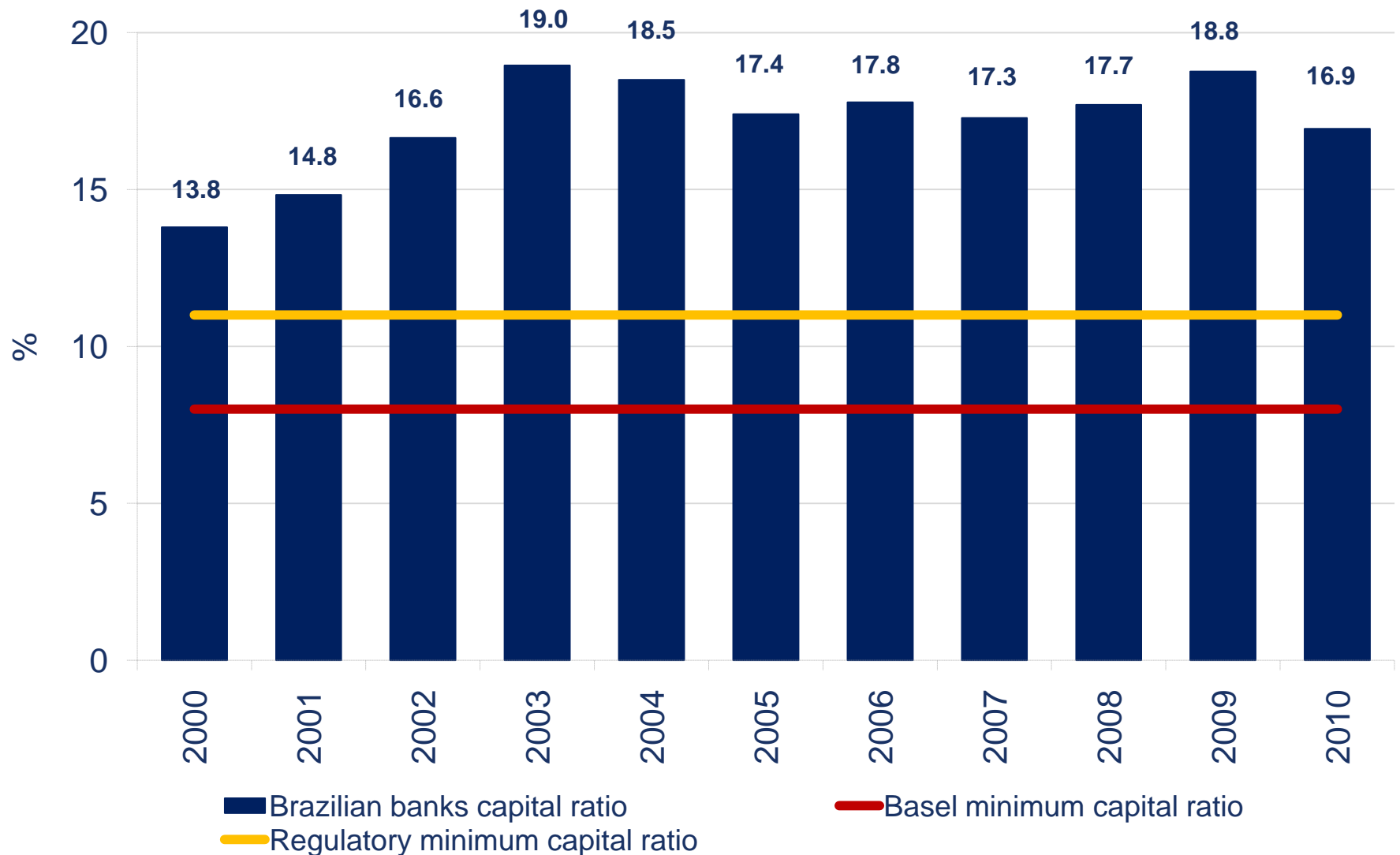
Type	2007	2008	2009	2010
Multiple bank	135	140	139	137
Commercial bank	20	18	18	19
Development bank	4	4	4	4
Savings bank	1	1	1	1
Investment bank	17	17	16	15
Exchange bank				2
Consumer finance company	52	55	59	61
Security brokerage company	107	107	105	103
Exchange brokerage company	46	45	45	44
Security distribution company	135	135	125	125
Leasing company	38	36	33	32
Real estate credit company and savings and loan association	18	16	16	14
Mortgage company	6	6	6	7
Development agency	12	12	14	15
	591	592	581	579
Credit cooperatives	1,465	1,453	1,405	1,370
Micro-entrepreneur credit company	52	47	45	45
	2,108	2,092	2,031	1,994
Consorcio company	329	317	308	300
Total	2,437	2,409	2,339	2,294

Top 10 Financial Institutions

Name	Ownership	Total assets (R\$ billion)	Credit operations (R\$ billion)	Total deposits (R\$ billion)	Net worth (R\$ billion)	Employees (Thousand)	Branches (#)	Basel capital ratio (%)
Banco do Brasil	Federal government owned	779	334	377	50	126	5,088	14.0
Itaú	Domestic private	720	234	215	62	121	3,767	15.5
Bradesco	Domestic private	563	197	194	48	86	3,636	14.7
BNDES	Federal government owned	521	177	22	66	3	1	19.7
Caixa	Federal government owned	401	176	215	15	108	2,209	13.6
Santander	Foreign controlled private	376	142	118	65	54	2,395	28.1
HSBC	Foreign controlled private	125	40	77	8	30	866	13.4
Votorantim	Domestic private	111	52	24	8	2	27	13.1
Safra	Domestic private	76	31	15	6	6	100	14.0
Citibank	Foreign controlled private	54	11	15	5	6	128	13.2
Others		624	240	216	86	64	1,619	
Banking segment total		4,350	1,633	1,488	420	606	19,836	

December 2010

Brazilian Banks - Capital Adequacy Ratio



Prudential Regulation and Supervision

General Features

- All FIs regulated and supervised
- Financial regulation mostly infra-legal
- Convergence to international standards (IFRS, Basel II, IOSCO)
- Participation in international forums (BCBS, G20, FSB)
- Generally conservative financial regulation

Financial Supervision - Main Features

- Risk-based approach to supervision
- On-site supervision
 - frequent on-site examination
 - rating of supervised institutions
 - qualitative assessment of risk management and control
 - analysis of financial and economic indicators
 - identification of areas to be monitored
- Includes contingency planning and assessment of organizational structures dedicated to risks

Off-Site Supervision

- Directs on-site supervision towards the riskier areas
- Specific monitoring of market and liquidity risks
 - uses information on assets and derivatives registered in clearing houses
 - conciliation with FIs' accounting information
- Monitoring of aggregate evolution of systemic risk over time
- Periodic application of stress tests to FIs' statements

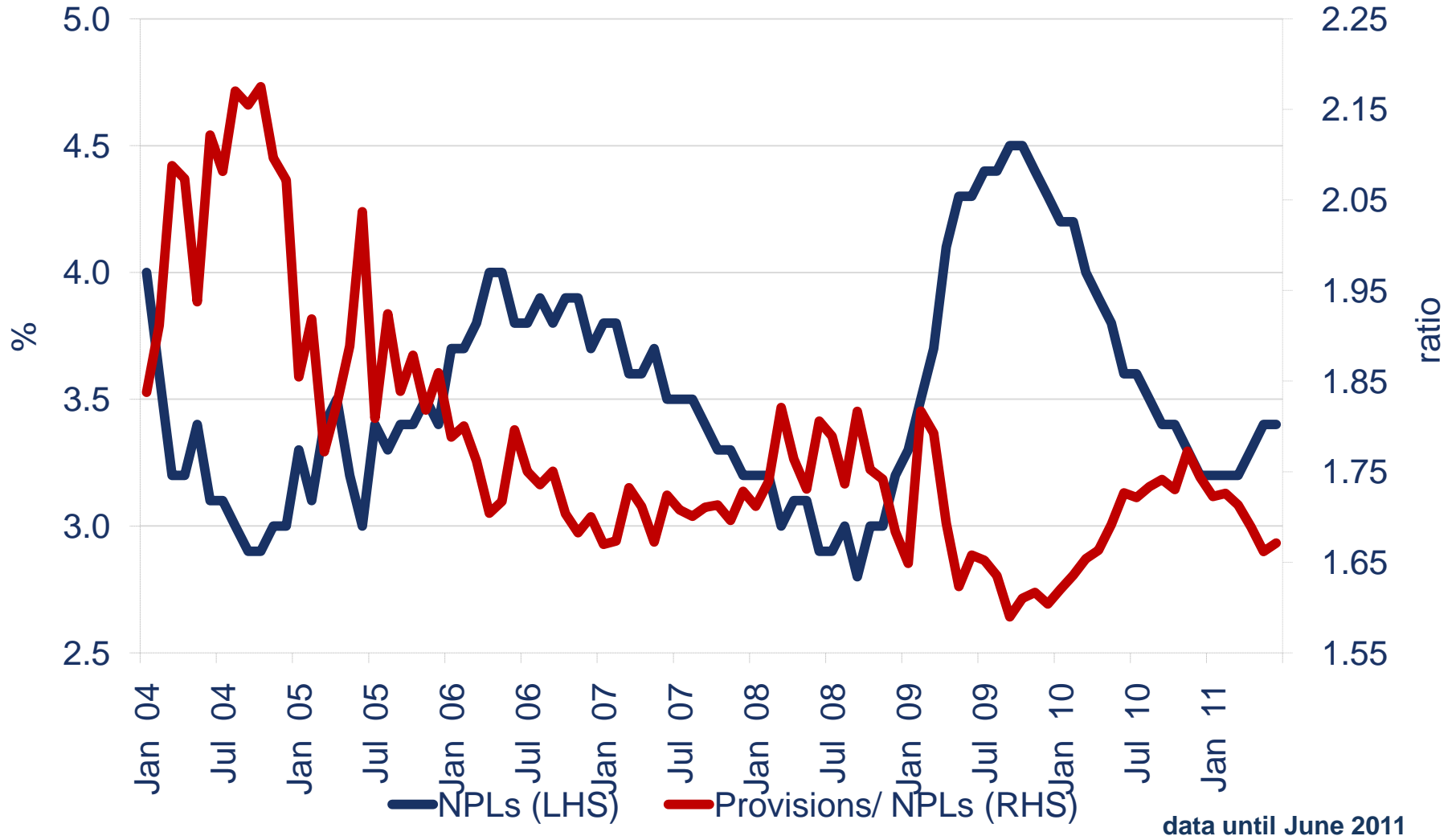
Conservative Features - Regulation

- Minimum capital ratio: 11% of RWA (above Basel minimum of 8%)
- Capital requirement for credit risk on trading book exposures (except stock)
- Lower risk weights for residential property exposures conditioned to loan-to-value
 - $LTV < 50\%$ \Rightarrow 35% risk weight
 - $50\% < LTV < 80\%$ \Rightarrow 50% risk weight
 - $80\% < LTV < 100\%$ \Rightarrow 75% (retail) or 100% (otherwise)
- Higher multipliers for standardized market risk requirement
- Forward-looking provisioning rule

Conservative Features - Regulation

- Mandatory organizational structure for management of each risk factor
 - Credit, market and operational risks
 - Board accountability on risk management
- Limits on large exposures
- Limits on foreign currency exposures
- Mandatory registration of OTC derivatives
- Mandatory internal controls

Credit: Provisions vs. Non Performing Loans



Recent Macroprudential Measures

- Increased capital requirements for consumer loan exposures involving longer maturities and higher LTVs. The risk weight for such exposures was increased from 100 to 150%.

Operation	Maturity and LTV	Risk Weight
Vehicles (financing and leasing)	between 24 and 36 months and LTV > 80%	150%
	between 36 and 48 months and LTV > 70%	
	between 48 and 60 months and LTV > 60%	
	more than 60 months and any LTV	
Payroll-deducted loan	more than 36 months	
Personal loan	more than 24 months	
Other consumer loans		100%*

*Unchanged

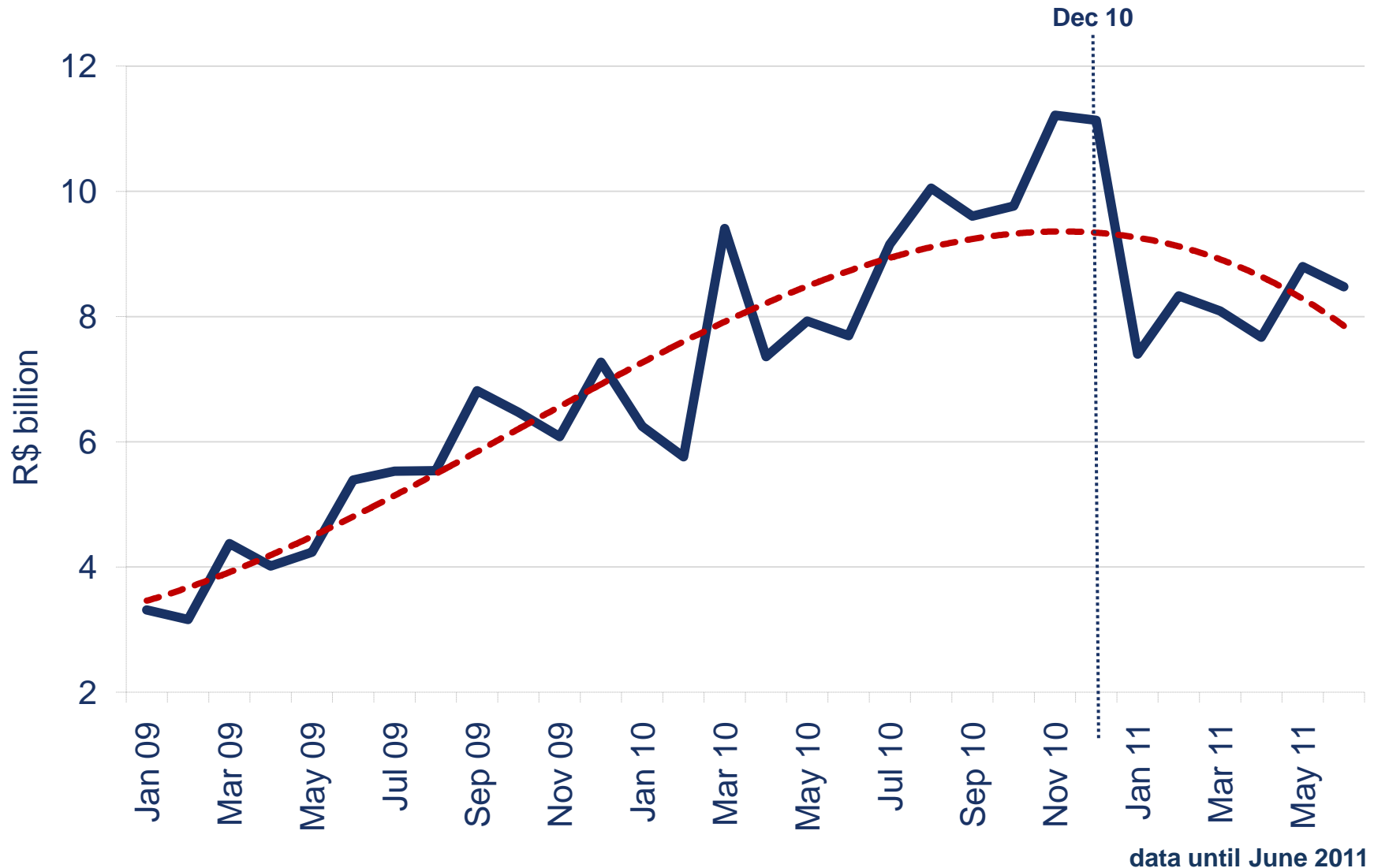
Recent Macroprudential Measures

- Increased bank reserve requirements on demand and time deposits
 - Volume estimated: R\$ 65 billion
- Established unremunerated reserve requirement on short spot FX positions above a limit
 - Limit: the lower of US\$1 billion or the bank's capital base
- Minimum payment for credit card bill
 - 15% (June 2011)
 - 20% (December 2011)

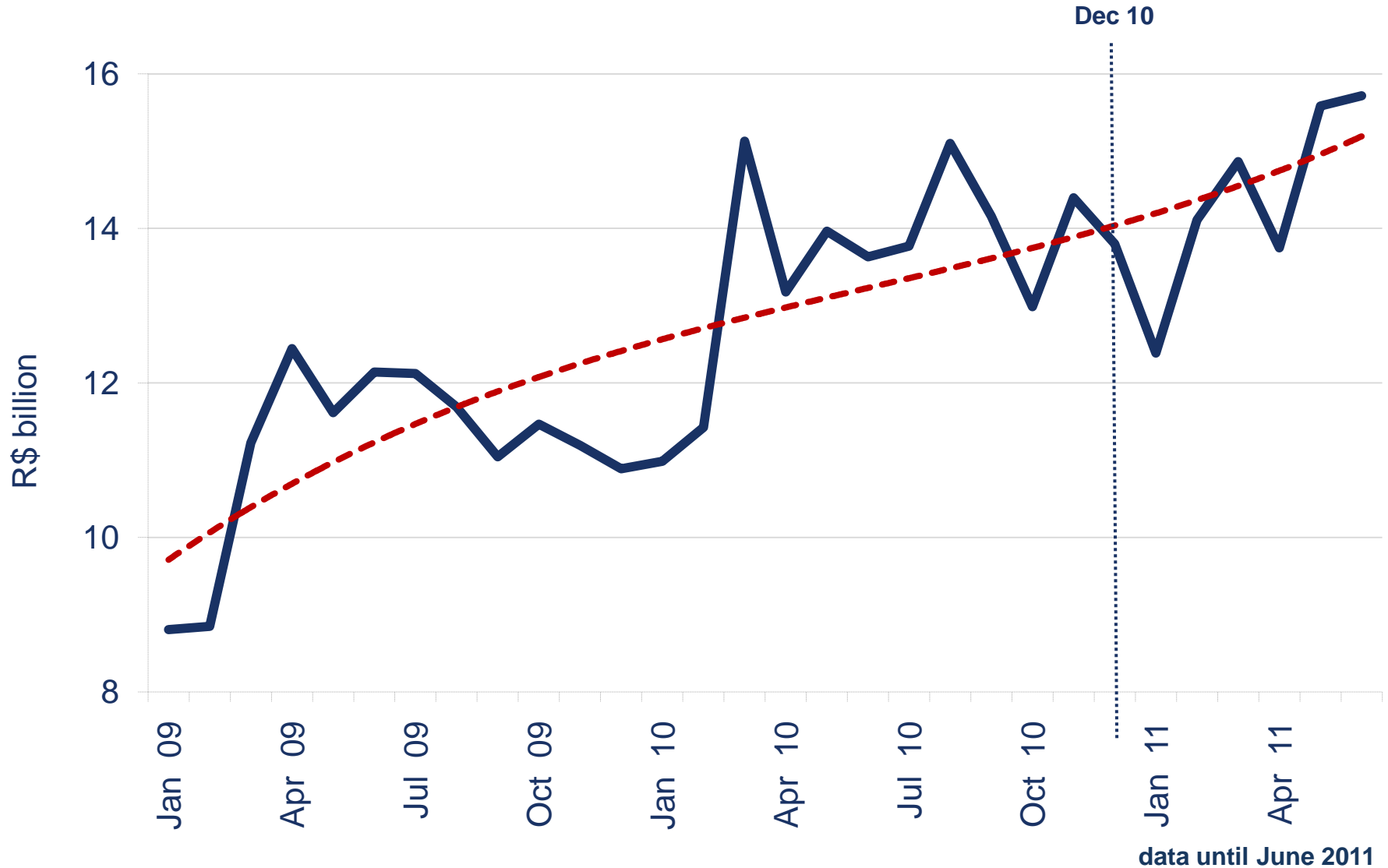
Recent Macroprudential Measures

- Established the Financial Stability Committee (*Comef*) within the Central Bank, in order to coordinate the Bank's efforts to monitor, evaluate, and mitigate systemic risk
 - Membership: Governor and Deputy Governors
 - Bimonthly meetings
 - Take over responsibility for the Bank's biannual *Financial Stability Report*

New Loans: Vehicles



New Loans: Personal Credit



Access to Banking Services

Access to Banking Services

	2002	2009	Present
Accounts (for the bank sector)	55,708,468	83,308,800	90,682,450
Customers	87,630,527	151,102,765	161,767,320
Branches			
For the banking sector	17,049	20,046	19,876
For all financial institutions	17,756	21,287	22,429
Posts of service (for the banking sector)	32,769	53,628	58,890
ATM's	129,913	165,567	165,479
Domestic correspondents	78,539	151,351	159,504
Municipalities			
Without banking services	222	-	-
With banking services	5,358	5,566	5,566
Municipalities banking services coverage	96%	100%	100%

Bank Correspondents

- **Definition:** non-financial firms hired by FIs to render basic banking services on their behalf
- Main correspondent chains are post offices, lottery outlets, supermarket ...
- Over 150,000 points of sale, compared to 20,000 branches of FIs (Feb. 2010)
- Allows banking system to cover all 5,566 municipalities
- Due diligence and anti-money laundering rules apply to correspondents

Bank Correspondents

- Main services are handling basic account transactions and receiving loan applications, processing payments, and transferring funds
- Bank-based model: financial institution (licensed, supervised) takes full responsibility for the services
- Correspondent may not charge additional fees to the public for its services
- Main activity of the correspondent has to be commercial, non-related to financial services

Synergies in Correspondent Banking

- Benefits for the bank
 - Broadens client base
 - Smaller overhead and direct costs
 - Informal environment: more inviting for lower-income customers
 - Flexible hours of operation
- Benefits for the correspondent
 - Transaction fees from the bank
 - Use of spare capacity
 - Increased flow of customers
 - Links the firm to a renowned brand

Simplified Accounts

- For individuals only
- No check books (only cards)
- Depositor is precluded from having any other accounts
- Account balance limit of R\$2,000 (around US\$ 1,210 as of Mar 2010)
- No maintenance fees
- Simplified identification requirements

Fostering Competition in the Banking Sector

Fostering Competition on Two Fronts

- Portability
 - Mandatory availability of personal data
 - Simplified transfer of loans
 - Salary transfer to other banks, free of charge
- Transparency
 - Implementation of credit bureau
 - Standardized disclosure of service fees and cost of loans
 - Information on fees, rates and complaints on Central Bank's website

Credit Bureau System (SCR)

- Created in 1997
- Exposures over R\$ 5,000 have to be informed on an individual basis
- Dual objective
 - Provision of information on client's bank debt to FIs'
 - Large database for supervisory use
- All financial institutions required to send information
- Access of banks to a particular client's information must be authorized by client

Glossary

BCB	Brazilian Central Bank
BNDES	National Bank of Economic and Social Development
CMN	Brazilian National Monetary Council
CVM	Brazilian Securities Commission
FAO	Food and Agriculture Organization
FGV	Getulio Vargas Foundation
IBGE	Brazilian Institute of Geography and Statistics
IMF	International Monetary Fund
IPEA	Institute for Applied Economic Research
MDIC	Ministry of Development, Industry and Foreign Trade
UM	United Nations