Consolidated financial statements under IFRS

Banco BTG Pactual S.A

December 31, 2010
with Independent auditors' report

BANCO BTG PACTUAL S.A

Financial statements

December 31, 2010

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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR A SPECIAL PURPOSE

Dear Sirs
Officers and Shareholders of
Banco BTG Pactual S.A.

We have audited the consolidated financial statements of Banco Pactual BTG S.A. and its subsidiaries ("Bank"), which comprise the consolidated balance sheet on December 31, 2010, and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting practices and other notes. These consolidated financial statements have been prepared in accordance with option I of Circular Letter # 3435 of the Central Bank of Brazil - BACEN using the accounting practices described in note 2, being considered for special purpose because it does not meet all the requirements of IFRS 1.

Management's responsibility for the consolidated financial statements

Bank management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting practices described in Note 4 and the internal controls established by it as necessary to permit preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

Responsibility of the independent auditors

Our responsibility is to express an opinion on these financial statements based on our audit conducted in accordance with the Brazilian and international auditing standards. Such standards require compliance with ethical requirements by the auditors and that the audit is planned and implemented in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the risk assessment of material misstatement of the financial statements, whether due to fraud or error. In this risk assessment, the auditor considers the internal controls relevant to the preparation and fair presentation of consolidated financial statements of the Bank to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Bank. An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as assessment of the overall presentation of the financial statements taken as a whole.

Responsibility of the independent auditors - Continued

We believe that the audit evidence obtained is sufficient and appropriate to base our opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements of Banco BTG Pactual S.A. and its subsidiaries on December 31, 2010 were prepared, in all material respects, in accordance with the accounting policies described in Note 4 to the consolidated financial statements.

Emphasis on the basis of preparation of consolidated financial statements for special purpose

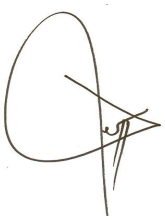
Without modifying our opinion, we draw attention to Note 2 to consolidated financial statements which describes its base of preparation. The consolidated financial statements were prepared by the management to meet the requirements of Circular Letter # 3435 of the Central Bank of Brazil - BACEN. Accordingly, these consolidated financial statements may be not suitable for another purpose.

Other matters

Banco BTG Pactual S.A. prepared a complete set of individual and consolidated financial statements for the year ended on December 31, 2010 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, presented separately on which we issued a separate independent audit report, not containing any change, dated as of February 15, 2011.

Rio de Janeiro, May 26, 2011

Ernst & Young Terco Auditores Independentes S.S.
CRC 2SP015199/O-6-F-RJ



Flávio Serpejante Peppe
Accountant CRC - 1SP172167/O-6-S-RJ

BANCO BTG PACTUAL S.A.

Consolidated balance sheets
December 31, 2010 and January 1, 2010
(In thousands of reais)

Assets	**Note**	**12/31/2010**	**01/01/2010**
Cash available and reserves in the Central Bank	7	1,622,522	87,506
Receivables from banks	8	86,740	565,860
Financial instruments			
Investments in open market	9	2,629,508	8,115,873
Derivatives	10	3,329,728	1,645,573
Financial assets for trade	10	34,257,042	4,945,867
Financial assets available at fair value in the income	10	23,269,811	2,464,522
Loans and receivables	11	4,340,974	1,409,594
Deferred tax assets	27	923,753	1,144,723
Other assets	12	2,969,473	1,404,437
Fixed assets used	26.d	197,883	30,518
Intangible assets	26.d	198,695	21,650
Total assets		**73,826,129**	**21,836,123**
Liabilities			
Payables to banks	8	338,891	217,776
Financial instruments			
Fund raising in open market	9	31,772,206	7,475,138
Derivatives	10	3,382,596	1,702,587
Financial liabilities for trade	10	19,053,092	2,402,795
Financial liabilities at amortized cost	10	11,707,824	5,696,421
Tax liabilities	13	570,015	638,531
Other liabilities	14	1,463,823	514,329
Total Liabilities		**68,288,447**	**18,647,577**
Net equity	15		
Capital stock		2,971,350	555,007
Capital reserves		-	7,079
Profit reserves		2,711,304	906,465
Accumulated profit		-	1,851,366
Other comprehensive income - exchange rate variation on Investments		(144,972)	(131,371)
Total Liabilities		**5,537,682**	**3,188,546**
Total		**73,826,129**	**21,836,123**

The accompanying notes are part of the financial statements.

BANCO BTG PACTUAL S.A.

Consolidated income statement
Year ended on December 31, 2010
(In thousand of reais, except for earnings per share)

	Note	2010
Revenue with interest and similar	18	1,826,819
Expenses with interest and similar	18	(1,132,136)
Revenue net of interest		694,683
Net income with financial instruments for trade	19	380,829
Net income with financial instruments at fair value in the income	19	3,647
Net exchange variations		68,760
Revenue of fees and commissions	20	798,819
Other operating revenue	23	61,119
Total revenue		2,007,857
Other administrative expenses	22	(255,204)
Expenses with personnel	21	(457,140)
Allowances	24	83,557
Tax expenses		(183,945)
Operating income before tax		1,195,125
Income tax and social contribution	27	(379,575)
Net income of the year		**815,550**

The accompanying notes are part of the financial statements.

BANCO BTG PACTUAL S.A.

Consolidated statement of comprehensive income
Year ended on December 31, 2010
(In thousands of reais)

	2010
Net income of the year	815,550
Other recognized revenue and (expenses)	
Exchange rate variation on investments	(13,601)
Total recognized revenue and expenses	801,949
Attributable to the subsidiary	801,949
Total	801,949

The accompanying notes are part of the financial statements.

BANCO BTG PACTUAL S.A.

Statement of changes in equity
Year ended on December 31, 2010

	Capital stock	Capital reserves	Profit reserves			Total profit reserves	Other comprehensive income - exchange rate variation on investments	Accumulated profit	Total
			Legal	Unrealized	Statutory				
Balances on January 01, 2010	**555,007**	**7,079**	**111,002**	**276,041**	**519,422**	**906,465**	**(131,371)**	**1,851,366**	**3,188,546**
Dividends (R$ 0.30 per share)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(373,637)**	**(373,637)**
Capital increase	**2,416,343**	**(7,079)**	**-**	**-**	**-**	**-**	**-**	**-**	**2,409,264**
Adjustments of equity assessment	**-**	**-**	**-**	**-**	**-**	**-**	**(13,601)**	**-**	**(13,601)**
Constitution of reserves	**-**	**-**	**-**	**-**	**1,477,729**	**1,477,729**	**-**	**(1,477,729)**	**-**
Net income of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**815,550**	**815,550**
Allocation of net income									
Legal reserve	**-**	**-**	**39,773**	**-**	**-**	**39,773**	**-**	**(39,773)**	**-**
Statutory reserve	**-**	**-**	**-**	**-**	**93,039**	**93,039**	**-**	**(93,039)**	**-**
Unrealized profit	**-**	**-**	**-**	**194,298**	**-**	**194,298**	**-**	**(194,298)**	**-**
Interest on shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,440)**	**(15,440)**
Distributed dividends (R$ 0.20 per share)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(473,000)**	**(473,000)**
Balances on December 31, 2010	**2,971,350**	**-**	**150,775**	**470,339**	**2,090,190**	**2,711,304**	**(144,972)**	**-**	**5,537,682**

The accompanying notes are part of the financial statements.

BANCO BTG PACTUAL S.A.

Consolidated statement of cash flows
Year ended on December 31, 2010

	2010
Operating activities	
Net income of the year	**815,550**
Adjustments to net income	**(1,861)**
Depreciations and amortizations	**11,740**
Adjustments of differences between BRGAAP and IFRS – adjustments of equity assessment	**(13,601)**
Adjusted net income of the year	**813,689**
net (increase) decrease in operating assets	
Reserves in the Central Bank of Brazil	**(74,839)**
Receivables from banks	**479,120**
Investment in open market	**(2,269,139)**
Derivatives	**(4,146)**
Financial assets for trade	**(29,311,175)**
Financial assets at fair value in the income	**(3,914,119)**
Loans and receivables	**(2,931,380)**
Deferred tax assets	**220,970**
Other assets	**(1,565,036)**
Net (increase) decrease in operating liabilities	
Payables to banks	**121,115**
Fund raising in open market	**24,297,068**
Financial liabilities for trade	**16,650,297**
Tax liabilities	**(68,516)**
Other liabilities	**949,494**
Cash from operating activities	**3,393,403**
Investment activities	
Acquisition of fixed assets used	**(174,122)**
Acquisition of intangible assets	**(182,028)**
Cash used in investment activities	**(356,150)**
Financing activities	
Capital increase	**2,409,264**
Financial liabilities at amortized cost	**6,011,403**
Interest on shareholders' equity paid	**(15,440)**
Distributed dividends	**(846,637)**
Cash from financing activities	**7,558,590**
Increase of cash and cash equivalent	**10,595,843**
Balance of cash and cash equivalent	
At the beginning of the year	**8,329,527**
At the end of the year	**18,925,370**
Increase of cash and cash equivalent	**10,595,843**

The accompanying notes are part of the financial statements.

1. Operating context

Banco Pactual BTG S.A. (Bank) is established as a commercial bank, acting together with its subsidiaries, offering financial products and services relating to commercial portfolios, including foreign exchange, investments, credit, financing and investment, leasing and real estate credit.

The operations are conducted in the context of a group of companies engaged in the financial market, and certain transactions have the intermediation of other companies of BTG Group.

In April 2009, shareholders have signed a contract to sell 100% of shares of Banco UBS Pactual S.A. to BTG Investimentos, LP, which was approved by the Central Bank of Brazil (BACEN) on September 16, 2009.

Continuing the expected reorganization steps aiming to simplify the corporate structure of the Bank, consequently reducing the financial and operating costs on April 26, 2010 the Bank merged its parent company BTG Pactual Investments S.A. for the book value of its equity on March 31, 2010, and the operation did not result in capital increase, however, the goodwill determined on the acquisition of the Bank generated a tax credit of R$ 87,183, recorded on the merger, approved by BACEN on December 21, 2010.

On September 20, 2010, the Bank acquired all the shares of Coomex, which operates and occupies a prominent position in the national power industry in the marketing and provision of expert services of power. The acquisition represents an important movement of BTG Pactual in consolidating a structure of financial and physical trading of commodities and increases the mix of products related to power delivered to its customers.

The consolidated financial statements for the year ended on December 31, 2010 were approved by the Management on May 26, 2011.

2. Presentation of the financial statements

2.1. Compliance with IFRS

In compliance with Resolution # 3786, the National Monetary Council (CMN), the consolidated financial statements of the Bank were prepared in accordance with the international accounting standard, according to pronouncements issued by the International Accounting Standards Board (IASB).

2. Presentation of the financial statements - Continued

2.1. Compliance with IFRS - Continued

The consolidated financial statements of the Bank were the first ones prepared in accordance with International Financial Reporting Standards (IFRS), as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and January 1, 2010 is the date of first adoption. Thus, we present the consolidated statement of financial opening position (the opening consolidated balance sheet) compared to the consolidated balance sheet determined on December 31, 2010. However, as provided by the Central Bank of Brazil specifically to its requirement for presentation of financial statements under IFRS, these consolidated financial statements do not represent the first complete presentation in accordance with IFRS because it does not present comparative statements with the previous year.

Reconciliations of net equity calculated in accordance with accounting practices in Brazil applicable to financial institutions authorized to operate by BACEN, and IFRS on December 31, 2010 and January 1, 2010, as well as the reconciliation of income of the year ended on December 31, 2010, are presented in Note 5.

2.2. Basis of preparation

The consolidated financial statements were prepared based on historical cost, except for (i) financial instruments for trading, (ii) derivative instruments, (iii) financial instruments available for sale and (iv) financial instruments designated at fair value through profit or loss, which were all measured at fair value.

The Bank's functional currency is real, which is also the presentation currency of the consolidated financial statements. The functional currency of subsidiaries located in Brazil is real and the subsidiaries located abroad is U.S. dollar. The effects of currency translation of subsidiaries located abroad are recorded in the net equity and presented in the statement of comprehensive income.

2.3. Significant accounting judgments and estimates

In the process of preparing the financial statements of the Bank, the Management made judgments and used estimates to calculate certain values stated in the financial statements. The most important use of judgment and use of estimates occurs in:

Continuity

Management assessed the Bank's ability to continue operating normally and is convinced that the Bank has funds to continue its business in the future. Additionally, the Management has no knowledge of any material uncertainty which may generate significant doubts about its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

Fair value of financial instruments

When the fair value of financial assets and liabilities recorded on the balance sheet can not be derived from an active market, they are determined using a variety of valuation techniques including the use of mathematical models. The variables of these models are derived from observable market data whenever possible, but when market data are not available, a judgment is needed to establish fair value. The judgments include considerations of liquidity and models of variables such as volatility of long-term derivatives and discount rates, prepayment rates and default assumptions of securities with assets as collateral.

2.3. Significant accounting judgments and estimates - Continued

Losses on the impairment of loans and receivables

The Bank reviews its loans and receivables individually significant at each balance sheet date to assess whether losses on the impairment must be recorded in the income statement. The Management judgment is required to estimate the amount and period of future cash flow in the determination of losses on the impairment. In estimating these cash flows, the Bank makes judgments regarding the financial situation of the customer and the net realizable value of the collateral. These estimates are based on assumptions of a number of factors and, therefore, actual results may vary, leading to future changes in the allowance.

Loans and receivables assessed individually, and not assigned to the impairment, and all loans and receivables, which individually were not considered significant are assessed collectively in groups of assets with similar risk characteristics to determine whether an allowance should be made for events already occurred whose effects are not yet known.

The collective assessment takes into account the data of the credit portfolio (such as credit quality, default levels, use of credit, the ratio between loans and collaterals etc...), concentrations of risk and economic data (including unemployment levels, rates of real estate prices, country risk and performance of individual groups).

Impairment of investments available for sale

The Bank reviews its debt instruments classified as investments available for sale on each date of the financial statements to assess whether they are designated for impairment. This requires a similar judgment to individual assessment of loans and receivables.

The Bank also records impairment of equity investments available for sale when there was a significant or extended written-off in fair value below its cost. The determination of what is considered "significant" or "extended" requires judgment. In order to achieve this judgment, the Bank assesses among other factors, the range of historical share price, and the duration and extent to which the fair value of the investment was lower than its cost.

2.3. Significant accounting judgments and estimates - Continued

Deferred tax assets

Deferred tax assets are recognized for tax losses to the extent that it is probable that taxable profit will be available during the period in which the losses may be used. A judgment is required to determine the amount of future deferred tax asset that should be recognized, based on the likely flow of future taxable profit and, together with tax planning strategies, if any.

2.4. Changes in accounting practices

The pronouncements and interpretations in force until the date of preparation of these financial statements were adopted on their preparation, taking into consideration those pronouncements required for privately held companies. The new pronouncements, reviews and interpretation, already issued, whose effectiveness will take place on a date after the date of these financial statements were not included in their preparation.

Among the innovations already issued but not yet applicable at the date of preparation of these consolidated financial statements, it is highlighted IFRS 9 (Financial instruments: classification and measurement) part of the replacement process of IAS 39 (Financial Instruments: Recognition and measurement). IFRS 9 brings new requirements for classifying and measuring financial assets and is effective from January 1, 2013. Its adoption is not yet available, since Resolution # 3853, of CMN, established that the early adoption of pronouncements issued by IASB is subject to approval of BACEN.

Management believes that the adoption of new standards, amendments and interpretations of standards that are not yet in force will not bring significant impact to the consolidated financial statements as a whole, except for IFRS 9, whose impacts are still being assessed.

2.4. Changes in accounting practices - Continued

The main changes introduced by IFRS9 in relation to the requirements of IAS39 are summarized below:

- All financial assets that are currently in the scope of IAS39 will be classified as either “amortized cost” or “fair value”. The categories "available for sale" and "held to maturity" will no longer exist.

- The classification is based on the entity's business model for the management of financial assets and characteristics of the contractual cash flows of financial assets. Reclassifications between the two categories (amortized cost or fair value) are prohibited unless there is a change in the business model of the entity.

- A financial asset is measured at amortized cost if two criteria are met: i) the purpose of the business model is to hold the financial asset to maturity, and ii) the contractual cash flow of the instrument is solely payments of principal and interest on the outstanding balance. All other financial assets are measured at fair value. Changes in fair value of financial assets classified at fair value are recognized in the income, except share investments which are recognized as other comprehensive income, and recorded as income only on its realization.

- An entity is allowed to designate a financial asset that meets the conditions for “amortized cost” at fair value against income if in doing so significantly reduces an accounting mismatch. This designation must be made on initial recognition and is irrevocable.

3. Consolidated financial statements

These consolidated financial statements include the financial statements of Banco BTG Pactual S.A. and its direct and indirect subsidiaries, including investment funds.

The accounting policies adopted in the record of operations and assessment of the rights and obligations of the Bank, subsidiaries, directly and indirectly, and investment funds included in the consolidation were applied uniformly, and the existing and/or determined investments, assets, liabilities and income among the entities were eliminated.

3. Consolidated financial statements -- Continued

The table below lists the subsidiaries of the Bank, directly and indirectly, including investment funds, consolidated in the financial statements.

	Interest in total capital - %
Direct interest	
BTG Pactual Asset Management S.A. Distribuidora de Títulos e valores mobiliários	99.99
BTG Pactual Corretora de Títulos e valores mobiliários S.A.	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e valores mobiliários	99.99
BTG Pactual Corretora de Mercadorias Ltda.	99.99
BTG Pactual Corporate Services Ltda.	0.01
BTG Pactual Securitizadora S.A.	99.99
BTG Pactual Agente Comercializador de Energia Ltda.	99.96
BTG Pactual Banking Limited	100.00
BTG Pactual Holding International S.A.	99.99
BTGP Recovery Holdings S.A.	99.99
Indirect interest	
BTG Pactual Gestora de Investments Alternassets Ltda.	99.98
BTG Pactual WM Gestão de Recursos Ltda.	99.99
BTG Pactual Overseas Corporation	100.00
BTG Pactual Gestora de Recursos Ltda.	99.99
BTG Pactual Corporate Services Ltda.	99.99
BTG Pactual Serviços Energéticos Ltda.– Coomex	100.00
BTG Pactual Empresa Operadora do Mercado Energético Ltda. Coomex	99.99
BTG Pactual Absolute Return II Master Fund LP	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	100.00
BTG Pactual International Port Fund SPC - CLASS C	99.83
Investment fund in non-standard credit rights Selected Certificates of Judgment Debt of the Government I	100.00
Investment Fund in Non-Standard Credit Rights NPL I	100.00
BTG Pactual Vanguarda Fundo de Investimento em Participações	92.73
BTG Pactual Saúde Fundo de Investimento em Participações	100.00
Nala Fundo de Investimento em Participações	100.00

4. Significant accounting practices

The most significant accounting policies adopted by the Bank and its direct and indirect subsidiaries are as follows:

a) Foreign currency translation

The consolidated financial statements are presented in Brazilian reais, which is the functional and presentation currency of the Parent Company ("Bank"). Each of the entities consolidated in the financial statements determines its own functional currency in accordance with the economic environment in which the entity operates.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the exchange rate of the functional currency in force on the date of the transaction. Exchange rate variations arising from the settlement of transactions or conversion of monetary assets and liabilities at the exchange rate of functional currency in force on the date of the balance sheet are recognized as gains or losses in the consolidated income statement.

(ii) Subsidiaries

On the base date of the financial statements, assets and liabilities of subsidiaries abroad are translated into real, by the exchange rate in force on the balance sheet date, and the income is converted to reais by the weighted average of exchange rates of the period. Exchange variations arising out of translation are recognized directly in the net equity.

4. Significant accounting practices - Continued

b) Financial instruments

(i) Recognition date

All assets and liabilities are initially recognized at trade date i.e. the date when the consolidated becomes an interested party to the contractual relationship of the instrument. This includes purchases or sales of financial assets that require delivery of the asset at a specified time established by regulation or market standard.

(ii) Initial recognition of financial instruments

The classification of the financial instruments at their initial recognition depends on the purpose for which they were acquired and their characteristics. All financial instruments are initially measured at fair value plus transaction costs, except in cases where assets and liabilities are recorded at fair value through profit or loss.

(iii) Derivatives

Derivatives are recorded at fair value and held as assets when fair value is positive and as liabilities when fair value is negative. The changes in fair value of derivatives are recognized in the consolidated income statement in “Gains (losses) with financial instruments for trading”.
Derivatives embedded in other financial instruments such as the translation into a convertible instrument purchased, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not related to the main contract, provided that the prime contract is not held for trading or designated at fair value through profit or income. The separate embedded derivatives are kept at fair value in the portfolio with changes in fair value recognized in the consolidated income statement.

4. Significant accounting policies - Continued

b) Financial Instruments - Continued

(iv) Assets and liabilities held for trading

Assets or financial liabilities held for trading are recorded on the balance sheet at fair value. The changes in fair value are recognized in "Net income with financial instruments for trading." Interest expenses or revenue and dividends are recorded in "Interest revenue and similar" and "Interest expenses and similar" under the contract or when the right to payment is established.
Included in this classification are: debt instruments, shares, positions sold and loans to customer which have been acquired specifically for the purpose of short term sale or repurchase.

(v) Financial assets and liabilities designated at fair value through profit or loss

Financial assets and liabilities classified in this category are those designated as such on initial recognition. The designation of a financial instrument at fair value through profit or loss on initial recognition is only possible when the following criteria are met and the designation of each instrument is individually determined:

- The designation eliminates or significantly reduces the inconsistent treatment that would occur in the measurement of assets and liabilities or recognition of gains and losses corresponding to different ways; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance assessed based on the fair value according to a documented strategy of investment or risk management; or

- The financial instrument has one (or more) derivative (s), which significantly changes the cash flows that would be required by the contract.

4. Significant accounting practices - Continued

b) Financial Instruments - Continued

Financial assets and liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes to fair value are recorded in "Net income with financial instruments at fair value in the income." Interest earned or incurred are recognized in "Revenue with interest and similar" or “Expense with interest and similar”, respectively, by the method of effective interest rate, while dividend revenue is recognized as “Other operating revenue (expense)” when the right to payment is established.

(vi) Financial investments available for sale
Financial instruments available for sale include shares and debt instruments. Shares classified as available for sale are those that are not classified as held for trading or designated at fair value through profit or loss. Debt instruments in this category are those to be held for an indefinite term and can be sold in response to liquidity needs or in response to changes in market condition.

After initial recognition, financial instruments available for sale are measured at fair value and gains or losses not realized are recognized directly in the statement of comprehensive income. At the realization of financial instruments available for sale, accumulated gains or losses previously recognized in the income statement
Losses on the impairment of these financial instruments are recognized in the income statement and written-offs, where applicable, of the statement of comprehensive income.

(vii) Profit or loss "Day 1"

When the transaction value is different from fair value from other observable active market transactions with the same instrument or based on a valuation technique whose variables include only observable market data, the difference between the transaction value and fair value (profit or loss “Day 1”) is immediately recognized in “Net income with financing instruments for trade”. Where the fair value is determined using unobservable market data, the difference between the transaction price and the value of the model is recognized in the income statement during the term of operation or when the variables may be observable, or even, when the financial instrument is written-off.

4. Significant accounting practices - Continued

b) Financial Instruments - Continued

(viii) Financial instruments held to maturity

Financial instruments held to maturity are non-derivative financial assets or liabilities with fixed or determinable payments and maturities defined, for which there is a positive intention and ability to hold to maturity. Investments held to maturity are initially recorded at fair value plus directly attributable costs, and are subsequently measured at amortized cost using the method of effective interest rate, less any reductions in the amount recoverable in case of financial assets.

(ix) Receivables from banks and loans and receivables

Receivables from banks and loans and receivables include financial assets with fixed or determinable payments that are not listed in an active market, except for:

- Those whose intention is to sell immediately or at short term and those initially designated as at fair value through profit or loss; or
- Those initially designated as available for sale; or
- Those whose total investment will not be substantially recovered except by the deterioration of credit.

After initial measurement, the amounts of receivables from banks and loans and receivables are measured at amortized cost using the method of effective interest rate, net of allowance for losses on the impairment.

(x) Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest rate and taking into account any discount or premium on issuance and material costs which become an part of the effective interest rate.

4. Significant accounting practices - Continued

c) Written-off of assets and liabilities

(i) Financial assets

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

- The right to receive cash flows of the asset has expired; or
- The Bank transferred the right to receive cash flows of the asset or has assumed the obligation to pay any cash flow received, at total amount, without material delay to a third party due to a transfer agreement and if:
  - the Bank substantially transferred all risks and benefits of the asset; or
  - the Bank did not substantially transfer or substantially retained all risks and benefits of the assets but transferred control over the asset.

When the bank transfers the right to receive cash flows from an asset or entered into a transfer contract, and has not transferred or substantially retained all risks and benefits of the asset, or has not transferred the control over the asset, is recognized to the extent of the continual evolvement of the bank in the assets. In this case, the bank also recognizes a liability related. The transferred asset and the related liability are measured based to reflect the rights and obligations of the bank.

(ii) Financial liabilities

A financial liability is written-off when the obligation in respect of the liability is eliminated, canceled or expired. When an existing financial liability is replaced by another from the same creditor on substantially different terms, or terms of the existing liability are substantially modified, the exchange or change is treated as a written-off of the original liability and recognition of a new liability, and the difference in book value is recognized in the income.

4. Significant accounting practices - Continued

d) Applications and raising in open market (purchase and sale operations)

Securities sold under repurchase agreement and a specific future date are not written-off from the balance sheet, since the risks and benefits of ownership are substantially retained in the consolidated. The corresponding cash received is recognized on the balance sheet as an asset with obligation to return, including interest recognized as a liability in "open market funding," reflecting the economic substance of the transaction as a debt of consolidated. The difference between sale and repurchase price is treated as interest expense and is recognized under the contract, according to the method of effective interest rate. When the counterparty has the right to sell or re-offer bonds as collateral, consolidated reclassifies these bonds in its balance sheet as financial assets for trade.

Conversely, bonds purchased under resale agreements at a specific future date are not recognized in the balance sheet. The amount paid, including interest accrued, is recorded on the balance sheet at market investments, reflecting the economic essence of the transaction as a loan of the consolidated. The difference between sale and repurchase price is treated as interest revenue and is recognized under the contract, according to the method of effective interest rate. If the purchased bonds under resale agreements are subsequently sold to third parties, the obligation to return the bonds is recorded with an unsecured sale, included in financial liabilities at fair value in the income and measured at fair value with any gain or loss included in net gain (losses) with financial instruments at fair value.

4. Significant accounting practices - Continued

e) Bonds lent and borrowed

Transactions of bonds lent and borrowed are generally secured by other bonds or cash. The transfer of bond to the counterparty is reflected in the balance sheet only if the risks and benefits of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Bonds borrowed are not recognized in the balance sheet, unless they have been sold to third parties, and if so, the obligation to return the bond is recorded as a financial liability for trade with gains or losses included in gains (losses) with financial instruments for trade.

f) Determination of fair value

Financial instruments are measured according to the hierarchy of fair value measurement described below:

Level 1: Price quotations observable in active markets for the same financial instrument.

Level 2: Quotations of prices observable in active markets for financial instruments with similar characteristics or based on a pricing model in which the significant parameters are based on observable active market data.

Level 3: Pricing models in which current market transactions or observable data are not available and require a high degree of judgment and estimation.

In some cases, the data used to determine the fair value can be located at different levels of the hierarchy of fair value measurements. In such cases, the financial instrument is classified as more conservative in which relevant data to determine the fair value were classified. This assessment requires judgment and considers specific factors of the respective financial instruments. Changes in the availability of information may result in reclassifications of certain financial instruments between the different levels of hierarchy of fair value measurements.

4. Significant accounting practices - Continued

g) Impairment of financial assets

Losses on the impairment of financial assets not assessed at fair value are immediately recognized when there is objective evidence of loss. The book value of these assets is reduced through the use of allowances and expected losses in future events are not recognized. Allowances for impairment of financial assets not assessed at fair value are calculated and assessed individually and collectively and are recognized in the income statement.

(I) *Financial assets recorded at amortized cost*
For financial assets recorded at amortized cost (such as amounts of receivables from banks, loans and advances to customers), the Bank assesses individually whether there is objective evidence of impairment.

If there is objective evidence that a loss on the impairment was incurred, the amount of the loss is measured as the difference between the book value of assets and present value of estimated future cash flows (excluding future expected losses with credit that have not yet been incurred).
The book value of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the income. Interest revenue continues to be recognized on the net book value of the allowance and is calculated based on the interest rate used to discount future cash flows used to measure the loss on the impairment. Interest revenue is recorded as part of "interest revenue". Loans and related allowances are written-off when there is no likelihood of recovery and all the collateral was made or transferred to the Bank. If the estimated amount of loss to the impairment increases or decreases due to an event occurring after the impairment was recognized, the amount of losses on the impairment previously recognized is increased or decreased by adjusting in the account of allowance. If a future written-off is later recovered, the amount is credited to “Credit losses”.

4. Significant accounting practices - Continued

g) Impairment of financial assets

The present value of estimated future cash flows are discounted at original actual interest rate of financial assets. If a loan has a variable interest rate, the discount rate for measuring any loss on the impairment is the current TJE. The calculation of present value of estimated future cash flows of financial assets as collateral reflects the cash flow that can result from the settlement less costs to purchase and sell the collateral, even if the settlement is not likely.

h) Financial instruments - Net presentation

Financial assets and liabilities are stated net in the balance sheet if and only if, there is a legal and enforceable current right to offset the recognized amounts and if there is the intention of offset, or to realize the assets and settle the liabilities simultaneously.

i) Recognition of revenues and expenses

Revenue is recognized to the extent that it is probable that the economic benefit is transferred to the bank and that revenue can be measured reliably. The specific recognition criteria below must be met before revenue is recognized:

4. Significant accounting practices - Continued

i) Recognition of revenues and expenses - Continued

(i) Revenue and expense of interest

For all financial instruments measured at amortized cost, financial assets that collect interest classified as available for sale and financial instruments designated at fair value through profit or loss, the revenue or expense of interest are recorded by the effective interest rate method, which is the rate exactly discounts receipts or estimated future payments by the estimated useful life of the financial instrument, or when appropriate, a shorter period, to the net book value of financial assets and liabilities. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are parts of the actual rate, but not of future credit losses. The book value of financial assets or liabilities is adjusted if the bank reviews its estimates of payment and receipt. The adjusted book value is calculated based on the original interest rate and the adjustment in the book value is recorded as "Other operating revenue (expense)". However, for reclassified financial assets for which the bank subsequently increases its estimate of future cash receipt, the effect of the increase is recognized as an adjustment in the actual rate from the date of the change in estimate.

Once the recorded value of financial assets or a group of similar financial assets are written off due to the loss on the impairment, revenue of interest continues to be recognized using the interest rate used to discount the future cash flow used to measure the loss on impairment.

4. Significant accounting practices - Continued

i) Recognition of revenues and expenses - Continued

(ii) Revenue of fees and commissions

The bank earns revenue of fees and commissions through different types of services it provides to its customers. Revenue from fees can be segregated into the following categories:

Revenues with fees and commissions earned from services provided in a given period

Fees and commissions earned from the provision of services over the period are recorded over the same period. These rates include revenue of commission and assets management, custody and other management and advisory fees.
Revenues with fees of loans in which the credit is likely to be used - and other fees related to credit - are deferred (together with any incremental costs) and recognized as an adjustment to the actual interest rate of the loan. When the use of credit from a loan is not probable, revenue of fees of loans is recognized over the period of the loan using the straight-line method.

Revenues with fees of transaction services provided

Fees from negotiations or interest in negotiations with third parties, for example, contract for acquisition of shares or other securities or acquisition or sale of a business, are recognized at the end of the transaction that generated the fee. Fees or components of fees that are probably related to specific performance are recognized after meeting specific criteria.

(iii) Revenue net of trade

Income arising from trade activity includes all gains and losses from changes in fair value and the revenue or expense of interest and dividends from financial assets and liabilities for trade.

j) Cash and cash equivalents

Cash and cash equivalents as referred to in the statements of cash flows include available cash, current accounts without restrictions with banks and, where applicable, receivables from banks available with original maturities of three months or less.

4. Significant accounting policies - Continued

k) Trade and intermediation of securities

Trade and intermediation of securities are recorded at purchase and sale cost of financial assets on their own and customers pending settlement.

l) Fixed assets used

Fixed assets are recorded at cost excluding maintenance cost, less accumulated depreciation and the impairment. Changes in estimated useful lives are recorded as changes in the method or the amortization period, and appropriately treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to lower the cost of the fixed asset to its residual value over their estimated useful lives.

The asset is written off on disposal or when no future economic benefits are more expected from its use. Any gain or loss generated on the sale of the asset (calculated as the difference between net income and book value of the sale of the asset) is recognized in ‘other operating income’ in the income statement for the year in which the asset was sold.

4. Significant accounting practices - Continued

m) Business combinations and goodwill

Business combinations are recorded by using the purchase accounting method. The method involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of cost over the fair value of identifiable net assets that were acquired is recognized as goodwill. If the acquisition cost is less than the fair value of identifiable net assets that were acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition.

The goodwill acquired in a business combination is initially recorded at cost, representing the excess of the cost of the business combination over the net fair value of identifiable assets, liabilities and contingent liabilities acquired.
After initial recognition, goodwill is measured at cost less any loss from the impairment accumulated. Goodwill is reviewed by the impairment annually or more frequently if events or changes in circumstances indicate that the book value may be below the recoverable amount. When subsidiaries are sold, the difference between the sale price and net assets added to the cumulative differences of translation of foreign currency and goodwill is recognized in the income statement.

n) Intangible assets

Other intangible assets include the value of computer software. An intangible asset is recognized only when its cost can be measured reliably and it is probable that expected future economic benefits that are attributed to it will be realized. The amortization expense of intangible assets with finite useful lives is recognized in the income statement in the expense category consistent with the role of the intangible asset.

4. Significant accounting practices - Continued

o) Financial guarantees provided

In the ordinary course of business, the bank provides financial guarantees through letters of credit, guarantees and sureties. Financial guarantees are initially recognized in the financial statements (in 'other liabilities') by the premium value and are amortized during the contract. Subsequent to initial recognition, liabilities are measured at the greater of the amount initially recognized less, when appropriate, the value of accumulated amortization recognized in the income, and the best estimate of the costs required to settle any financial obligation created by this guarantee.

p) Allowances

Allowances are recognized when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that a disbursement of funds embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. The expense relating to any allowance is presented in the income statement net of any reimbursement.

The recognition, measurement and disclosure of contingent assets and liabilities and legal tax and social security obligations are made in accordance with the criteria described below:

Contingent assets - are not recognized in financial statements, except when there is evidence that provide a guarantee of their realization, for which there are no more remedies.

Contingent liabilities - are recognized in financial statements when, based on the opinion of legal counsel and management, the risk of losing a lawsuit or administrative proceedings is considered probable with a probable outflow of funds for settlement of obligations and when the amounts involved are reliably measured. The contingent liabilities classified as possible losses by legal counsel are disclosed in the notes, while those classified as remote loss do not require allowance or disclosure.

4. Significant accounting practices - Continued

q) Taxes

Allowance for income tax and social contribution are recognized based on accounting profit, adjusted for additions and deductions provided for by tax law. Deferred income tax and social contribution are calculated on the value of temporary differences and tax loss carry forwards, and are recognized when the realization of those amounts are deemed probable. For income tax the rate used is 15% plus a 10% allowance on annual taxable income exceeding R$ 240 and 15% for social contribution.

Deferred tax assets and liabilities are measured at tax rates that are expected to be applicable in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Current tax and deferred tax relating to items recognized directly in net equity are also recognized in net equity and rather than in the income statement.

Deferred tax assets and liabilities are presented net if there is a legal or contractual right to offset current tax assets against current tax liabilities and deferred taxes are related to the same taxable entity and subject to the same taxation authority.

r) Dividends and interest on shareholders' equity (JCP)

Dividends and interest on shareholders' equity are recognized as a liability and deducted from net equity when approved by the shareholders of the Bank. Dividends on interim dates are deducted from net equity when declared and are not subject to further decision by the Bank.

5. Transition to IFRS

As detailed in Note 2.1, the transition to IFRS has been registered in accordance with IFRS 1 and the date of transition was January 1, 2010. As a result, the bank's accounting policies in these consolidated financial statements have been amended on the date of transition in order to meet IFRS in relation to accounting policies applied for BRGAAP purposes.

Changes in accounting policies arising from the transition to IFRS and reconciliation of the effects of this transition are shown below. The bank prepared its opening balance sheet on January 1, 2010 through the application of standards and accounting policies, measurement bases described in Note 4, and adopted the following exemptions:

a) Business combinations and consolidation scope

IFRS 1 allows that business combinations and past acquisitions of investments in associates occurred before the date of transition are not assessed, retrospectively, through the application of IFRS 3. This exemption allows companies adopting IFRS for the first time keep basically the accounting treatment adopted in the previous accounting practice, in this case BRGAAP. The bank adopted this exemption until January 1, 2010 and thereafter, applied IFRS 3 or IAS 28, as appropriate, to record only business combinations and acquisitions of investments in associates after that date.

In accordance with the exemption permitted by IFRS 1, the accounting policies used for the initial record and subsequent measurement of goodwill generated by acquisitions prior to date of transition according to BRGAAP were maintained, where the goodwill was fully amortized at the time when these acquisitions occurred. Intangible assets arising from acquisitions prior to date of transition were not recognized in BRGAAP.

IFRS 1 also requires that in case the bank had not consolidated any subsidiary acquired under BRGAAP, the book values of assets and liabilities of this acquired subsidiary would be adjusted according to IFRS. However, there were no acquisitions of subsidiaries that have not been consolidated in BRGAAP before the transition to IFRS.

5. Transition to IFRS - Continued

b) Fair value considered initial cost

Under IFRS 1, an entity may at the date of transition to IFRS, measure an item of fixed assets at its fair value, and this value becomes the initial cost of this asset, as of this date. The bank did not make use of this exemption from IFRS 1. The cost of fixed assets was determined based on historical cost, calculated under BRGAAP, adjusted for inflation for the years when Brazil was considered hyperinflationary in accordance with IAS 29.

c) Designation of previously recognized financial instruments

IAS 39 allows an entity to designate financial instruments in the category of financial assets or liabilities at fair value through profit or loss or as financial assets available for sale on the date of acquisition or issue of financial instrument. According to the exemption from IFRS 1, the designation, for the first adoption of IFRS can be made on the date of transition, even though the instrument was originally assigned to another category. The bank did not adopt the exemption allowed by IFRS 1 and not re-designated financial assets at the date of transition, keeping the existing designation in BRGAAP on January 1, 2010.

d) Measurement of fair value of financial assets and liabilities at the date of transition

IFRS 1 requires that an entity must apply the specific requirements of IAS 39 for fair value measurements of financial assets and liabilities at the date of transition to IFRS. IAS 39 requires that techniques for assessment of financial assets and liabilities measured at fair value, incorporating all the factors that an interested party of market would consider in determining price when economically acceptable and consistent methodologies are used for the pricing of such instruments. Additionally, IAS 39 establishes the rules for states in which an entity can recognize an initial gain or loss on the hiring of a financial asset or liability (profit or loss "Day 1"). As a result of this requirement, IAS 39 requires that a gain or loss generated on initial hiring or subsequent changes in fair value of a financial instrument, are recognized only if the methodology for calculating fair value included data and quotation observable in the market at the date of assessment of fair value.

5. Transition to IFRS - Continued

e) De-recognition of financial assets and liabilities

IFRS 1 requires that an entity applying IFRS for the first time applies the asset and liability derecognition as defined by IAS 39 prospectively to transactions occurring after January 1, 2004. Consequently, if the bank had derecognized, according to BRGAAP, a non-derivative financial asset or liability as a result of a transaction that occurred before January 1, 2004, could no longer recognize this asset or liability in the transition to IFRS. Additionally, IFRS 1 allows the application of "derecognition" standards of financial assets and liabilities retrospectively on a date chosen by the entity, provided that the information needed to apply such standards had been obtained on the date of record of the transaction that gave rise to the "derecognition".

f) Estimates

IFRS 1 requires that the estimates used by management for purposes of IFRS on the date of transition are consistent with estimates made on the same date under previous GAAP, unless there is evidence of errors in the preparation of estimates in previous GAAP in comparison to IFRS. Additionally, if the Management obtains information after the date of transition to IFRS impacting estimates that were made in accordance with BRGAAP, it should treat this information as an event after the balance sheet date, and follow up the accounting treatment of IAS 10. IAS 10 applies to the opening consolidated balance sheet and comparative periods shown in preparing the first financial statement under IFRS of an entity, if any. The bank considered the estimates used for BRGAAP consistent with estimates used on the date of transition to IFRS and therefore there were no changes in estimates because of information obtained subsequent to the date of transition that required some adjustment in the estimates for IFRS purposes.

g) Interest of non-controlling shareholders

IFRS 1 requires that the entity applying IFRS for the first time applies some requirements of IAS 27 prospectively from the date of transition. However, these requirements did not generate impact for the bank, since there are no interest of non-controlling shareholders.

5. Transition to IFRS - Continued

h) Compound financial instruments

IAS 32 requires that compound financial liabilities have its components separated and classified as debt instruments and equity instruments. This classification is determined by economic substance and specific terms of these instruments on the date of their issuance. IFRS 1 allows separation of these two components, if the debt component is not already outstanding on the date of transition. This exemption does not generate impacts for BTG Pactual.

i) Transactions of share-based payments

IFRS does not require that an entity adopts IFRS 2 for employee benefits as call options granted before November 7, 2002 and also for benefits granted after November 7, 2002, but whose conditions for their realization or enjoyment have been reached before the date of transition or before January 1, 2010 (out of the two, the most recent). This exemption does not generate impacts to BTG Pactual because there are no agreements or contracts that have transactions with share-based payments.

j) Leasing

The entity applying IFRS for the first time may choose to apply the specific transition rules of IFRIC 4 - "Determining whether an arrangement contains a lease" and may determine whether a leasing contract exists on the date of transition to IFRS based on facts and circumstances existing on the date of transition. The application of IFRIC 4 does not generate impacts on BTG Pactual, because no contracts that should be recorded as a leasing agreement have been identified.

5. Transition to IFRS - Continued

k) Reconciliation between BRGAAP and IFRS applicable to the net equity

Below we show a reconciliation of net equity and net income between the accounting practices adopted in Brazil and IFRS on January 1, 2010 (date of transition) and the year ended on December 31, 2010:

	Ref.	01/01/2010 Net equity	12/31/2010 Net equity	01/01 to 12/31/2010 Income
Consolidated net equity in accordance with the Brazilian accounting practices		**3,244,500**	**5,602,593**	**810,906**
Adjustments affecting PL between BRGAAP and IFRS		**(55,954)**	**(64,911)**	**4,644**
Adjustment to fair value	(i)	(2,755)	10,177	13,414
Adjustment of actual interest rate	(ii)	(25,626)	(26,791)	(1,165)
Recognition of assets sold with risk retained	(iii)	(64,878)	(105,532)	(40,655)
Reclassification of exchange variation on investments abroad - BTG Pactual Banking limited	(iv)	-	-	22,697
Reversal of goodwill amortization	(v)	-	8,376	8,376
Deferred tax on GAAP adjustments	(vi)	37,305	48,859	1,977
Consolidated net equity in IFRS		**3,188,546**	**5,537,682**	**815,550**

(i) Adjustment to fair value

It refers substantially to the effect of adjustment to fair value of financial instruments owned by investment funds controlled by the Bank that are measured under BRGAAP in accordance with standards applicable to the respective investment funds.

(ii) Deferral of commissions by the actual interest rate

The commissions involved in the credit operations, assessed at amortized cost, were adjusted to make the actual interest rate in compliance with IAS 39 “Financial Instruments - Recognition and Measurement”.

5. Transition to IFRS - Continued

k) Reconciliation between BRGAAP and IFRS applicable to the net equity-- Continued

(iii) Recognition of assets sold with retained risk

Under the guidance of IFRS, the sale of financial assets with retention of risks and benefits, the assets must remain recorded in the asset, and the revenues arising out of such assets recognized for the remaining term of the operations sold. In these cases the amount received on sale should be recorded as liabilities and costs recognized for the remaining term of the operation. According to BRGAAP, such assets are written off and the positive or negative result determined on the sale must be recorded in the income of the period on the day of operation.

(iv) Exchange variation on investments abroad

It refers to exchange rate variation on investments abroad that, for BRGAAP purposes, is recognized in income while under IFRS is recognized in net equity in "other comprehensive income".

(v) Reversal of goodwill amortization

According to the accounting practices established by BACEN, the goodwill based on expected future profitability is subject to amortization and impairment test at least once a year, or whenever there are indications of loss of value of assets acquired. In accordance with IAS 38, goodwill is not amortized but tested for purposes of determining the loss of impairment at least once a year, or whenever there is some indication of possible loss of impairment. Because of this difference between the standards, the value of the goodwill amortization expense for year 2010 was reversed in full.

(vi) Income tax and social contribution

The changes in taxes and social contributions represent the effects of deferred tax on the adjustments mentioned in previous items.

6. Business combinations

During the year ended on December 31, 2010 the Company conducted business combination of the company Empresa Operadora do Mercado Energético Ltda.- Coomex, as shown in the table below:

Company	Date of Acquisition	Shareholding interest acquired	Transaction value	Amount paid up to 12.31.2010	Amount payable	Allocation of goodwill/bargain purchase
Coomex	09/20/10	99.99%	183,099	(105,249)	77,850	167,515

On September 20, 2010, the bank acquired through its subsidiary BTG Pactual Agente Comercializador de Energia Ltda. 99.99% of the shares of BTG Pactual Empresa Operadora do Mercado Energético Ltda.Coomex, which operates and occupies a prominent position in the national power industry in the marketing and provision of expert services of power. The acquisition represents an important movement of BTG Pactual in consolidating a structure of financial and physical trading of *commodities* and increases the mix of products related to power delivered to its customers.

The fair value of identifiable assets and liabilities on the date of acquisition is as follows:

	Coomex
	Fair value recognized on acquisition
Assets	
Cash and cash equivalent	21,317
Trade accounts receivable	50,227
Other assets	15,170
	86,714
Liabilities	
Trade accounts payable	46,730
Loans	20,946
Other liabilities	11,409
	79,085
Total identifiable net assets	**7,629**
Events subsequent to balance of 08/31/2010	7,955
Goodwill on acquisition	167,515
Total consideration	**183,099**

6. Business combinations - Continued

Assets acquired and liabilities assumed

Goodwill on acquisition of Coomex was R$ 167,515 and comprises the value of future economic benefits from the synergies arising from the acquisition. It is expected that the goodwill generates future tax benefits. The management is in the process of revising the fair values of assets and liabilities as set forth in IFRS 3 for allocation of goodwill, if applicable.

7. Cash and cash reserves in the Central Bank of Brazil

The composition of this item is shown in the following table:

	2010
Available Cash	**1,522,813**
Deposits at the Central Bank	**99,709**
	1,622,522

8. Values receivable/payable to banks

The composition of this item is shown in the following table:

	Assets	Liabilities
Interfinancial deposits	**85,657**	**338,891**
Investments in foreign currency – Overnight	**1,083**	**-**
	86,740	**338,891**

9. Investments and fund raising in the open market

The composition of this item is shown in the following table:

	Assets	Liabilities
Operations with its own funds	**189,007**	**24,182,695**
Operations with third parties' funds	**2,440,501**	**7,589,511**
	2,629,508	**31,772,206**

10. Classification and measurement of financial instruments

a) Derivatives

The composition of this item is shown in the following table:

	Assets	Liabilities
Derivatives		
Swaps	**313,759**	**229,590**
Forward sales receivable-forward purchases payable	**1,355,631**	**1,360,086**
Option premiums	**253,705**	**370,103**
Non-Deliverable Forward - NDF	**132,011**	**206,538**
Foreign exchange portfolio	**1,274,622**	**1,216,279**
	3,329,728	**3,382,596**

b) Financial assets

The composition of this item is shown in the following table:

	Financial assets for trade	Financial assets at fair value by income
Own portfolio		
Government debt instruments	**3,285,921**	**-**
Shares of investment funds	**1,129,508**	**-**
Shares of publicly held companies	**2,161,066**	**-**
Corporate debt instruments	**3,032,706**	**-**
Bound to repurchase agreements		
Government debt instruments	**22,398,147**	**-**
Corporate debt instruments	**498,806**	**-**
Bound to provision of guarantees		
Government debt instruments	**792,929**	**-**
Shares of publicly held companies	**957,959**	**-**
Liquidity interfinancial investments		
Borne position		
Government debt instruments	**-**	**292,152**
Corporate debt instruments	**-**	**270,642**
Financed position		
Government debt instruments	**-**	**5,142,950**
Sold position		
Government debt instruments	**-**	**17,564,067**
Total	**34,257,042**	**23.269.811**

10. Classification and measurement of financial instruments - Continued

c) Financial Liabilities

The composition of this item is shown in the following table:

	Financial liabilities for trade	Financial liabilities at amortized cost
Loans of shares	**1,173,165**	**-**
Loans of government debt instruments	**17,879,927**	**-**
Deposits		**-**
Deposits in cash	**-**	**2,312,891**
Time deposits	**-**	**7,908,932**
Other deposits	**-**	**12,830**
Funds and exchange rate acceptance		
Real estate bills and similar	**-**	**1,311,890**
Obligations for securities and bonds abroad	**-**	**6,019**
Receipts and payments payable	**-**	**1**
Loans abroad	**-**	**55,161**
Local onlending- FINAME	**-**	**100,100**
Total	**19,053,092**	**11,707,824**

There were no reclassifications between categories during the year ended on December 31, 2010.

10. Classification and measurement of financial instruments - Continued

d) Measurement of fair value

Below we show a summary of the fair values of financial assets and liabilities classified based on the measurement methods adopted by the bank:

Description	Level 1	Level 2	Level 3	Total
Liquidity interfinancial investments - fair value in the income	**15,563,553**	**7,706,258**	**-**	**23,269,811**
Derivatives - assets	**3,133,875**	**195,853**	**-**	**3,329,728**
Bonds and securities - trade	**29,338,337**	**4,376,162**	**542,543**	**34,257,042**
Derivatives – liabilities	**2,918,575**	**464,021**	**-**	**3,382,596**
Loans of shares - trade	**1,173,165**	**-**	**-**	**1,173,165**
Fund raising in open market - trade	**17,879,927**	**-**	**-**	**17,879,927**
Deposits – amortized cost	**10,234,653**	**-**	**-**	**10,234,653**
Funds and exchange rate acceptance - amortized cost	**1,317,909**	**-**	**-**	**1,317,909**
Receipts and payments payable - amortized cost	**1**	**-**	**-**	**1**
Loans abroad - amortized cost	**55,161**	**-**	**-**	**55,161**
Local onlending- FINAME - amortized cost	**100,100**	**-**	**-**	**100,100**

There were no reclassifications between levels 1, 2 and 3 during the year ended on December 31, 2010.

11. Loans and receivables - Loans and receivables

a) The composition of this item is shown in the following table:

Loans and receivables	Balance	Allowance	Total
Loans	**2,398,457**	**(79,514)**	**2,318,943**
Financing	**1,002,652**	**(1,084)**	**1,001,568**
Onlending FINAME/BNDES	**100,535**	**(70)**	**100,465**
Financing of bonds and securities	**102,713**	**-**	**102,713**
Compensation fund of wage variations - FCVS	**34,406**	**-**	**34,406**
Bonds and credits receivable (i)	**623,873**	**(489)**	**623,384**
Without characteristic of credit grant	**139,525**	**(30,676)**	**108,849**
Debtors for trade and trading of values	**50,646**	**-**	**50,646**
	4,452,807	**(111,833)**	**4,340,974**

(i) Refers to operations of acquisition of receivables

11. Loans and receivables – Loans and receivables - Continued

b) Changes in the allowance for the years was as follows:

	2010
Initial balances	**(139,442)**
Constitution of allowance	**(7,030)**
Credits written-off for loss	**34,639**
Final balances	**(111,833)**
Composition of final balances	
Allowance for credit operations	**(110,921)**
Allowance for other credits	**(912)**
	(111,833)

12. Other assets

The composition of this item is shown in the following table:

	2010
Court deposits	**434,647**
Taxes payable	**172,366**
Options for tax incentives	**1,317**
Cash of records and settlement	**8,547**
Debtors/creditors - accounting pending settlements	**1,757,948**
Debtors for loans of shares	**223,008**
Services provided receivable	**92,144**
Administration fee and performance of investment funds and portfolio	**111,147**
Temporary investments	**30,312**
Other values and assets	**18,541**
Advanced expenses	**2,300**
Other investments	**7,916**
Allowance for loss	**(2,987)**
Sundries	**112,267**
	2,969,473

13. Tax liabilities

The composition of this item is shown in the following table:

	2010
Deferred:	
Deferred income tax and social contribution	**9,744**
Current:	
Taxes and contributions chargeable	**42,596**
Taxes and contributions payable	**79,399**
Taxes suspended:	
PIS	**33,853**
COFINS	**368,752**
CSL	**7,560**
IR	**1,534**
Others	**6,736**
Others	**19,841**
Tax liabilities	**570,015**

14. Other liabilities

The composition of this item is shown in the following table:

	2010
Cash of record and settlement	**163,957**
Debtors/creditors - accounting pending settlements	**714,362**
Income of the future years	**24,290**
Profit sharing of employees	**230,601**
Bonus payable	**41,443**
Allowance for payments to be made	**168,242**
Obligations for acquisition of goods and rights	**83,074**
Allowance for contingent liabilities	**27,579**
Others	**10,275**
	1,463,823

15. Net equity

a) Capital stock

The share capital, fully subscribed and paid-in is composed of 2,400,000,000 shares, being 1,200,160,000 common shares, 298,445,596 Class A preferred shares and 901,394,404 Class B preferred shares, all registered and without par value.

The Special Shareholders' Meeting held on April 30, 2010 and approved by BACEN on December 8, 2010 decided to increase the capital stock at the amount of R$ 7,079 upon realization of a capital reserve, without issuing new shares.

In AGEs held on December 9, 2010 and approved by the Central Bank on December 24, 2010 the following resolutions were determined:
(i) creation of class A and class B preferred shares which does not have voting rights, ensured to them in case of dissolution of the Bank, the priority in the reimbursement, without premium, of the capital stock. The class B shares will be convertible into common shares or class A preferred shares, according to the conditions provided for in the Articles of Association, (ii) splitting of all 1,253,583,889 common shares issued by the Bank, so that the capital stock is now divided into 1,952,331,606 common shares, all registered, without par value, (iii) conversion of 901,394,404 common shares into 901,394,404 Class B preferred shares, (iv) capital increase of R$ 2,409,264 through the issuance of 447,668. 394 new shares being 149,222,798 common shares and 298,445,596 class A preferred shares.

b) Legal reserve

Created under the laws in force at the rate of 5% of annual net income, before any other allocation, limited to 20% of the capital stock.

c) Statutory reserve

According to the Articles of Association, this reserve aims to keep working capital, and its amount is limited to the balance of the capital stock.

15 Net equity - Continued

d) Unrealized profits reserve

This reserve was created based on the non-distributed income determined in subsidiaries abroad.

e) Allocation of income

Shareholders are entitled to minimum dividends of 25% over the adjusted net income under Article 202 of Act 6404/76.

In Meetings of the Executive Board held on March 18, April 26 and September 20, 2010, allocations of dividends referring to profits from previous years were decided, at the amounts of R$ 133,061, R$ 13,000 and R$ 227,576, respectively. On December 29, 2010 the distribution of dividends at the amount of R$ 473,000 related to income for the current year was decided.

On September 20, 2010, interest on shareholders' equity was decided at the amount of R$ 15,440, which generated a tax benefit by deducting the expense of R$ 6,176.

16 Risk management

a) Market risk

Through Value-at-Risk calculation models and mainly through stress tests and scenario analysis, the various scenarios envisioned for the behavior of the markets are properly simulated, allowing the identification of key components of risk to be neutralized The development of computational systems to support decision making allows that the entire investment process - including screening, analysis, monitoring, optimization and simulation - is carried out efficiently. For Value-at-Risk calculation, the methodologies of historical simulation and, where necessary, Monte Carlo simulation are used. As for stress tests three different models are used: historical stress test , worst scenario of correlations and hypothetical stress test.

16. Risk Management - Continued

a) Market risk - Continued

The Value-at-Risk which the bank measures is an estimate, using a reliability level of 95%of potential loss that is not expected to exceed the market risk position of power is to be kept unchanged for a day. The use of the reliability level of 95% means that, within the horizon of one day, losses that exceed the amount of Value-at-Risk should only occur on average of normal market condition, no more than five times every 100 days.

The value of the Value-at-Risk at the end of the year was R$ 32.6 million.

b) Credit risk

All counterparties of the bank and its subsidiaries are subject to a rigorous credit analysis process, whose main focus is the assessment of ability to pay, based on simulations of cash flow, leverage and timing of debt, asset quality, interest coverage and working capital. Qualitative aspects such as strategic guidance, business sector, areas of expertise, efficiency, regulatory environment and market share, are systematically assessed and complement the credit analysis process. The credit limits for counterparties of the bank and its subsidiaries are established by the Credit Committee and are reviewed regularly. The measurement and monitoring of the total exposure of the bank and its subsidiaries to credit risk, covers all financial instruments capable of generating counterparty risk, such as corporate bonds, derivatives, guarantees provided and risks of settlement of transactions.

16. Risk Management - Continued

b) Credit Risk - Continued

The maximum exposure of Financial Assets segregated by geographic region are as follows:

Assets	Brazil	Abroad	Total
Cash and balance in the Central Bank	**809,230**	**813,292**	**1,622,522**
Receivables from banks	**86,740**	**-**	**86,740**
Investment in open market	**2,629,508**	**-**	**2,629,508**
Derivatives	**1,276,498**	**2,053,230**	**3,329,728**
Financial assets for trade			
Bonds and securities	**13,418,410**	**17,719,607**	**31,138,017**
Financial assets available at fair value in the income			
Liquidity interfinancial investments	**15,442,475**	**7,827,336**	**23,269,811**
Loans and receivables	**3,182,815**	**1,158,159**	**4,340,974**
Total assets	**36,845,676**	**29,571,624**	**66,417,300**

The following table shows the main exposures to credit risk based on book values and categorized by economic activity of the counterparties:

Assets	Financial institutions	Governments	Services	Industry	Others	Total
Cash and balance in the Central Bank	**1,622,522**	**-**	**-**	**-**	**-**	**1,622,522**
Receivables from banks	**86,740**	**-**	**-**	**-**	**-**	**86,740**
Investment in open market	**2,629,508**	**-**	**-**	**-**	**-**	**2,629,508**
Derivatives	**1,065,513**	**-**	**-**	**-**	**2,264,215**	**3,329,728**
Financial assets for trade						
Bonds and securities	**794,827**	**25,684,068**	**702,612**	**462,492**	**2,364,510**	**30,008,509**
Shares of investment funds	**-**	**-**	**-**	**-**	**1,129,508**	**1,129,508**
Financial assets available at fair value in the income						
Liquidity interfinancial investments	**22,707,017**	**292,152**	**-**	**-**	**270,642**	**23,269,811**
Loans and receivables	**-**	**-**	**2,801,908**	**915,741**	**623,325**	**4,340,974**
Total assets	**28,906,127**	**25,976,220**	**3,504,520**	**1,378,233**	**6,652,200**	**66,417,300**

Financial assets that are due without event of loss or individually due with event of loss are covered partially or in whole by guarantees.

16. Risk Management - Continued

c) Liquidity risk

The bank and its subsidiaries manage liquidity risk by concentrating its portfolio in high credit quality and high liquidity assets, using funds obtained through prime counterparties at extremely competitive rates.

The bank and its subsidiaries maintain a strong capital structure and a low leverage degree. Furthermore, any mismatch between assets and liabilities are monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets and reduce leverage.

Analysis of financial liabilities by remaining contractual maturity.
The following table summarizes the maturity profile of assets and liabilities of the bank on December 31.

Assets	Less than 12 months	More than 12 months	Total
Cash and balance in the Central Bank	**1,622,522**	**-**	**1,622,522**
Receivables from banks	**86,740**	**-**	**86,740**
Investment in open market	**2,629,508**	**-**	**2,629,508**
Derivatives	**3,165,910**	**163,818**	**3,329,728**
Financial assets for trade	**34,257,042**	**-**	**34,257,042**
Financial assets available at fair value in the income	**23,269,811**	**-**	**23,269,811**
Loans and receivables	**2,812,127**	**1,528,847**	**4,340,974**
Deferred tax assets	**-**	**923,753**	**923,753**
Other assets	**2,341,889**	**627,584**	**2,969,473**
Fixed assets used	**-**	**197,883**	**197,883**
Intangible assets	**-**	**198,695**	**198,695**
Total assets	**70,185,549**	**3,640,580**	**73,826,129**

16. Risk Management - Continued

c) Liquidity risk - Continued

Liabilities	Less than 12 months	More than 12 months	Total
Payables to banks	**338,891**	**-**	**338,891**
Fund raising in open market	**31,772,206**	**-**	**31,772,206**
Derivatives	**3,128,505**	**254,091**	**3,382,596**
Financial liabilities for trade	**19,053,092**	**-**	**19,053,092**
Financial liabilities at amortized cost	**10,549,088**	**1,158,736**	**11,707,824**
Tax liabilities	**-**	**570,015**	**570,015**
Other liabilities	**1,422,380**	**41,443**	**1,463,823**
Net equity	**-**	**5,537,682**	**5,537,682**
Total	**66,264,162**	**7,561,967**	**73,826,129**

d) Operating risk

In compliance with the guidelines of the Central Bank of Brazil and the concepts of Basel Committee, the bank defined an Operating Risk Management Policy applicable to the bank and its subsidiaries in Brazil and abroad.
The policy is a set of principles, procedures and instruments that provide a permanent adequacy of risk management to the nature and complexity of goods, services, activities, processes and systems.

The Bank and its subsidiaries have a strong culture of operating risk management, which relies on the assessment, monitoring, simulation and validation of risk and is based on consistent internal controls. There is a constant improvement of the management and control of operating risk in order to meet the requirements of regulatory agencies, quick adjustment to changes and anticipation of future trends, among which we highlight the proposed New Basel Capital Accord.

17 Related parties

The institutions of BTG Pactual Group invest their cash primarily in products of raising fund of Banco BTG Pactual S.A.

The balances of related party transactions, which are made based on rates and under normal market conditions, are reflected in the following accounts:

	2010			
	Relationship Degree	**Up to**	**Assets/ Liabilities**	**Revenue/ (Expenses)**
Assets				
Other credits				
Income receivable				
- BTG Global Asset Management Limited	Linked	No maturity	**15,398**	**52,685**
			15,398	**52,685**
Liabilities				
Deposits				
Deposits in cash				
- BTG Pactual Stigma Participações S.A	Linked	No maturity	**89**	**-**
- BTG Alpha Participações Ltda	Linked	No maturity	**44**	**-**
- BTG Alpha Investments LLC	Linked	No maturity	**5**	**-**
- Members and administration key personnel	-	No maturity	**17**	**-**
Time deposits				
- BTG Pactual Alpha Participações Ltda	Linked	12/23/2011	**3,371**	**(342)**
Sundries				
- BTG Pactual US Capital Corp.	Linked	No maturity	**4,154**	**(10,590)**
			7,680	**(10,932)**

The total remuneration of key management personnel, which is considered short-term benefit was R$ 6,662.

18 Revenue (expense) of interest

Revenue of interest in the consolidated income statement consists of accrued interest during the year on all assets with implicit or explicit return, calculated by applying the actual interest method regardless of fair value measurement. Interest is recognized by the gross value without deducting withholding taxes.

Revenue of expenses in the consolidated income statement consist of accrued interest during the year on all financial liabilities with implicit or explicit return, including compensation if cash calculated by applying the actual interest method regardless of fair value measurement.

19 Income with trading of financial instruments

Gains (losses) with financial instruments are comprised of amounts relating to the assessment of financial instruments and their gains and losses.

	Financial instruments at fair value in the income	Financial instruments for trade
Interfinancial liquidity investment	3,647	-
Variable and fixed income bonds	-	(391,457)
Investment funds	-	356,461
Derivatives		415,825
Gains (losses) with financial instruments	**3,647**	**380,829**

20 Net revenue of fees and commissions

This revenue is composed of the values of all fees and commissions earned to the benefit of the bank in the year, except those that are part of the actual interest rate on financial instruments. Below is a table showing the opening of these values:

	2010
Administration fee and performance premium of investment funds and portfolio	**343,413**
Brokerage in stock Exchange	**107,673**
Technical Assistance	**265,706**
Commission of placement of bonds	**64,257**
Other services	**17,770**
TOTAL	**798,819**

21 Expenses with personnel

The composition of this item is shown in the following table:

	2010
Direct compensation	**388,079**
Benefits	**16,194**
Charges	**52,555**
Other expenses of personnel	**312**
	457,140

22 Other administrative expenses

The composition of this item is shown in the following table:

	2010
Facilities	**20,312**
Materials	**4,858**
Data processing and telecommunications	**59,316**
Advertising, promotions and publications	**13,315**
Services of third parties	**72,965**
Services of the financial system	**28,446**
Travels	**14,784**
Lawsuits	**19,185**
Others	**22,023**
	255,204

23 Other operating revenue (expense)

The composition of this item is shown in the following table:

	2010
Adjustment for inflation of court deposits	**25,684**
Indemnity for reorganization	**31,680**
Reversal of goodwill	**8,376**
Expense of tax adjustment	**(2,949)**
Repayment of financial operating costs	**(3,787)**
Other revenue (expense)	**2,115**
	61,119

24 Allowances

The composition of this item is shown in the following table:

	2010
Reversal of allowance (i)	**98,964**
Allowance for amortization of goodwill	**(8,377)**
Allowance for credit operations e other credits	**(7,030)**
	83,557

(i) Reversal of allowance for loss of bond without characteristic of credit grant, by reason of court indemnity.

25 Other information

a) Deposits

The interfinancial deposits and time deposits issued at market rates, had the following weighted average timeframes:

	2010
Interfinancial deposits	**221**
Time deposits	**283**

25 Other information - Continued

b) Commitments and responsibilities

The bank and its subsidiaries have as key commitments and responsibilities as follows:

	2010
Coobligations and risks for guarantees provided (i)	**1,122,929**
Responsibilities for administration of investment funds and portfolios (ii)	**99,409,007**
Receivers of values in custody (iii)	**40,274,434**
Trade and mediation of values (iv)	**888,938,214**

(i) Basically refer to guarantee granted for the security of transactions on the stock exchange.

(Ii) Entered by the sum of the property values of funds and investment portfolios.

(iii) Reflect the positions of third parties in public and private securities under custody of SELIC and CETIP S. A, respectively, recorded at issue value, when post-fixed, and the surrender value, when prefixed, also includes the quantities of shares of customers, under custody at BM&FBOVESPA at the price of R$ 1.00 per shares.

(iv) Represent the values of purchase contracts of derivative financial instruments related to third party operations.

c) Cash and cash equivalents

The components of cash and cash equivalents considered in the presentation of the Consolidated Statements of Cash Flow are shown in the following table:

	12/31/10	01/01/10
Cash available	**1,522,813**	62,636
Overnight operations	**1,083**	511,387
Liquidity interfinancial investments with maturity within 90 days at most	**17,401,474**	7,755,504
	18,925,370	8,329,527

25 Other information-Continued

d) Fixed assets and intangible assets

Fixed assets substantially represented by this construction in progress, which did not cause reductions in the year and intangible asset is represented by substantial goodwill of Coomex (note 6).

26 Contingent assets and liabilities and legal obligations - tax and social security

The management of the bank and its subsidiaries assess the existing contingencies in the light of lawsuits against the companies and made provision, as it deems necessary to meet probable losses arising from said processes. The judgment of the management takes into account the opinion of its independent counsels with respect to the expectation of success in each process.

a) Contingent assets

On December 31, 2010 the Bank and its subsidiaries did not have contingent assets recorded.

b) Contingent liabilities classified as probable losses and legal obligations

- Labor allowances

They are composed of lawsuits filed by former employees, mainly with requests for overtime and equal pay. The contingency amounts are accrued according to an analysis of the potential value of loss, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

- Civil allowances

In civil actions with potential loss (damage and property claims and other lawsuits) the values of the contingencies are accrued based on the opinion of external and internal legal counsel.

- Tax and social security allowances

Allowances for tax and social security lawsuits are represented by judicial and administrative proceedings of federal, state and local taxes and are composed of legal obligations and contingent liabilities. Its constitution is based on the opinion of internal and external legal counsel and in the instance in which each lawsuit is.

26 Contingent assets and liabilities and legal obligations - tax and social security - Continued

c) Composition and change of allowances in the period

The bank management is challenging the constitutionality of certain tax procedures related to federal taxes, as well as participating in other tax and civil lawsuits. The Bank management, based on the opinion of legal counsel, believes, for pending judicial proceedings, that the allowances for these risks on December 31, 2010 are appropriate to cover possible losses arising from these proceedings.

Allowances made and respective changes in the period can be presented as follows:

	2010
Balance at the beginning of the year	**348,720**
Constitution	**91,543**
Accounting reclassification (i)	**9,844**
Written-off	**(4,093)**
Balance at the end of the year	**446,014**

(i) Refers to the accounting reclassification of value previously classified in other taxes and social security obligations.

BTG Pactual Group has been discussing in court the legality of certain taxes and contributions. The amounts of such taxes are fully accrued, although there are good chances of success, according to the assessment or opinion of our external counsel. Among these discussions in court the following are noteworthy:

COFINS - Discussion of the legality of charging COFINS according to the rules established by Law 9718/98.

PIS - Questioning the levy of contribution for PIS instituted in the Constitutional Amendments # 10 of 1996 and # 17 of 1997.

CSL - Discussion of CSL required from financial institutions from 1996 to 1998 at rates higher than those applied to corporations in general, to the detriment of the constitutional principle of equality.

There are no relevant contingencies assessed by external counsel as a possible loss, not accrued.

27 Income tax

The reconciliation of income tax and social contribution expense on profit with the proceeds of the tax rate on profit before income tax and social contribution is shown as follows:

	IRPJ	CSL
Income before tax on profit sharing	**1,195,125**	**1,195,125**
Statutory profit sharing	**(175,119)**	**(175,119)**
Interest on shareholders' equity	**(15,440)**	**(15,440)**
Calculation basis	**1,004,566**	**1,004,566**
Tax rate	**25%**	**15%**
Income tax and social contribution	**(227,142)**	**(150,685)**
Non-deductible allowances	**15,424**	**9,254**
Profit available from abroad	**(73,987)**	**(44,392)**
Result of the market assessment	**(37,009)**	**(22,205)**
Allowance for taxes suspended	**(13,506)**	**(8,103)**
Amortization of goodwill	**228,938**	**138,289**
Permanent increases/decreases - net effect	**68,570**	**54,612**
Recovery of IRPJ of subsidiaries abroad	**81,863**	**-**
Income of non-settled derivatives	**3,030**	**1,820**
Tax loss/ negative basis	**10,712**	**6,423**
Current allowance	**56,893**	**(14,987)**
Result of the market assessment	**28,028**	**16,838**
Income of non-settled derivatives	**(3,030)**	**(1,820)**
Deferred allowance	**24,998**	**15,018**
Total allowance	**81,891**	**31**
Tax loss/ negative basis	**(10,712)**	**(6,423)**
Result of the market assessment	**8,890**	**5,312**
Non-deductible allowances	**(16,361)**	**(8,049)**
Allowance for taxes suspended	**13,506**	**8,103**
Tax credit on goodwill on acquisition of the bank	**(174,449)**	**(104,669)**
Deferred tax assets	**(179,126)**	**(105,726)**
Income tax and social contribution	**(97,235)**	**(105,695)**
Current allowance – subsidiaries	**(151,495)**	**(39,754)**
Deferred allowance – subsidiaries	**371**	**79**
Deferred tax assets – subsidiaries	**8,263**	**3,914**
Adjustments to IFRS	**1,234**	**743**
	(238,862)	**(140,713)**

27 Income taxes - Continued

Deferred tax assets, shown under "Deferred tax assets-" can be shown as follows:

	Expected realization	IRPJ (25%) and CSL (15%)
Accumulated tax loss	**2011 to 2015**	**105,346**
Negative basis of social contribution	**2012 to 2015**	**60,684**
Temporary increases:		
Goodwill on acquisition of the bank	**2011 to 2015**	**382,659**
Goodwill on acquisition of the bank – BTG Pactual Investments S.A.	**2011 to 2015**	**74,106**
Allowance for suspended COFINS	**2012**	**100,215**
Allowance for profit sharing	**-**	**588**
Allowance for bonus payable	**2012**	**19,981**
Allowance for suspended PIS	**2013**	**4,259**
Allowance for devaluation of bonds and investments	**2013**	**62,812**
Goodwill on acquisition of investments	**2013**	**867**
Allowance for civil contingencies	**2013**	**906**
Allowance for labor contingencies	**2013**	**7,239**
Allowance for doubtful receivables	**2011 to 2015**	**67,680**
Allowance for result of market assessment	**2011**	**14,202**
Allowance for debtors for trade and mediation of Values	**2011**	**22,209**
Total		**923,753**

28. Operating Limits

According to the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology for calculating the Base Equity and Required Reference Equity, from July 1, 2008, through Resolution # 3.444/07 and 3490/07of CMN. The guidelines for determining the credit Risk, market Risk and operating Risk were also determined through Circular Letters # 3,360/07, 3,361/07 to 3,366/07, 3,368/07, 3,383/08, 3,388/08 and 3,389/08 of BACEN.

The calculation of Basel ratio is based on financial statements prepared on BRGAAP on a consolidated basis covering all subsidiaries of the Bank.

	2010
Reference equity (PR)	**5,567,094**
Net equity	**5,602,593**
Tax credits excluded in level I of PR	**(3,857)**
Deferred permanent assets	**(11,073)**
Deductions of PR	**(20,569)**
Reference equity required (PRE)	**2,841,792**
Credit risk	**1,631,880**
Market risk	**943,183**
Operating risk	**266,729**
Excess of PR: (PR-PRE)	**2,725,302**
Basel Ratio: (PRx100)/PRE/0,11)	**21,55%**

The management opted for the basic indicator approach for operating risk measurement.

28 Operating limits - Continued

The Fixed Asset Limit as determined by CMN through Resolution # 2.283/96 amended by Resolutions # 2669/99 and wording of Resolution # 2.743/00 and 3426/06 is also calculated on a consolidated basis considering all the subsidiaries in BR GAAP.

	2010
Limit for immobilization (50%):	**2,781,409**
Reference equity for limit of immobilization (PR_LI)	**5,562,818**
Equity instruments	**(4,276)**
Status for limit of immobilization:	**2,256,144**
Permanent assets	**393,088**
Deferred permanent assets	**(11,073)**
Equity instruments	**(4,276)**
Intangible assets excluded from calculation of limit of immobilization	**(174,832)**
Variable income instrument recorded in current assets	**2,053,237**
Margin	**525,265**

On December 31, 2010, all operating limits are properly met.

29 Subsequent events

On January 31, 2011, the Bank undertook to acquire all shares of Silvio Santos Group at Banco PanAmericano S.A., for R$ 450 million. Thus, after approval from the competent bodies and the completion of the transaction, the Bank will hold 37.64% of the net equity of the retail institution, with 51.00% common shares and 21.97% preferred shares. Once completed the transaction, control of Banco PanAmericano S.A. will be exercised jointly with Caixa Econômica Federal, and on the date of completion of the business, a Public Offer of Shares (IPO) will made to minority shareholders under the same conditions offered to the controlling shareholder. The financial statements for the period ended on December 31, 2010 of Banco PanAmericano S.A. were disclosed on February 22, 2011.