

# **GRUPO SANTANDER BRASIL**

## **Integration for leadership**

São Paulo, October 31, 2008

**Brazilian Financial System**

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- **Characteristics and Evolution of Financial System**

- **Funding and Liquidity**

# Financial System: Solid, with low leverage and good asset quality...

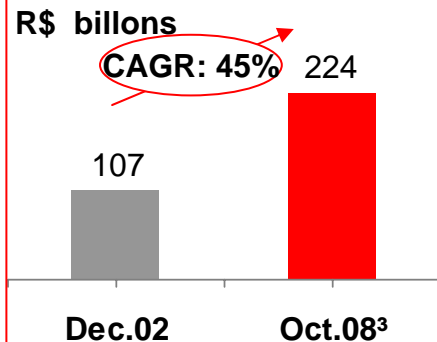
## Solid, profitable and good asset quality...

	Dec/02	Jun/08
ROE	18%	22%
BIS <sup>1</sup>	16.7%	16.4%
Coverage Ratio <sup>1</sup>	100%	122%
Delinquency <sup>2</sup>	8.5%	5.1%
TIER I / TIER II	0%	16%
Assets / stockholder equity	10.4	10.9

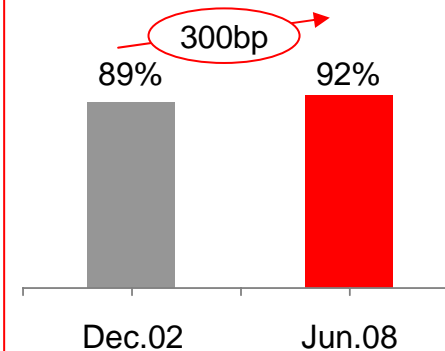
## ...with low leverage

- Low level of external dependence: 8% of foreign issues
- Good asset quality and low delinquency
- BIS ratio higher than required by the Central Bank, of 11%
- Low leverage: 10.9 assets / stockholder equity
- Low Tier I / Tier II ratio, indicating opportunities in raising capital using subordinated debt
- No toxic products

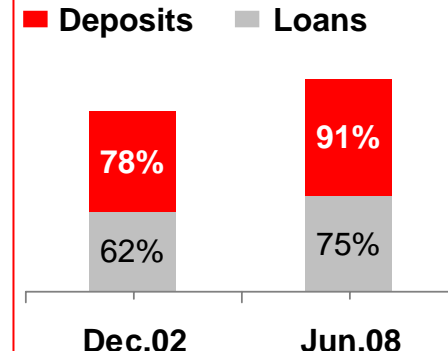
### Reserve Requirements



### Loans / Deposits (%)



### Concentration – 10 largest Banks

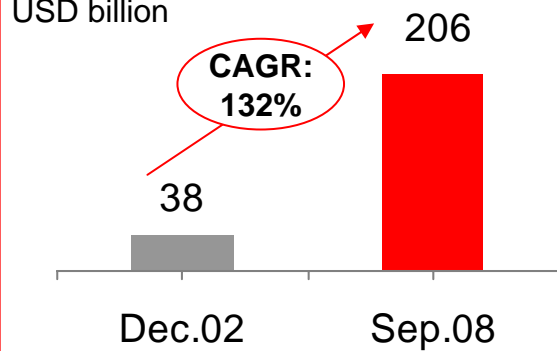


1. Considers only the 20 largest banks. 2. E-H/ Total Loans as of September 2008 3. Santander estimates

# ...supported by solid economic fundamentals

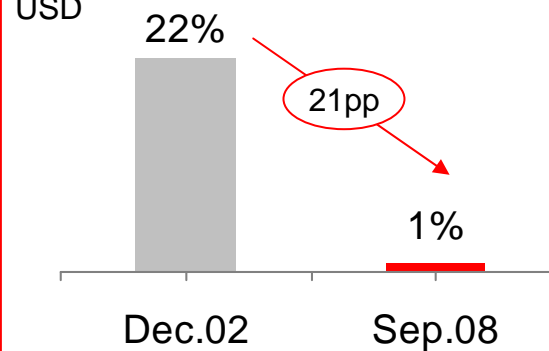
## International Reserves

USD billion

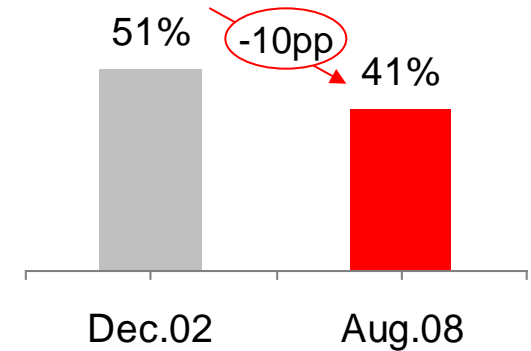


## Securities / Total debt

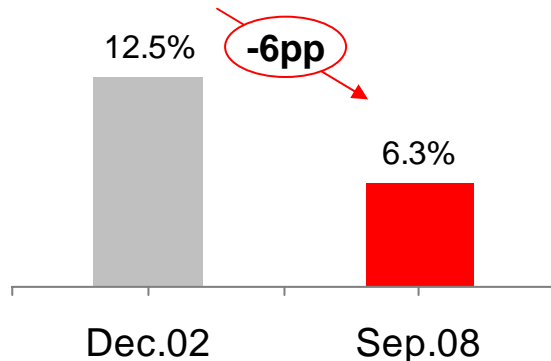
USD



## Public Debt / GDP



## Inflation

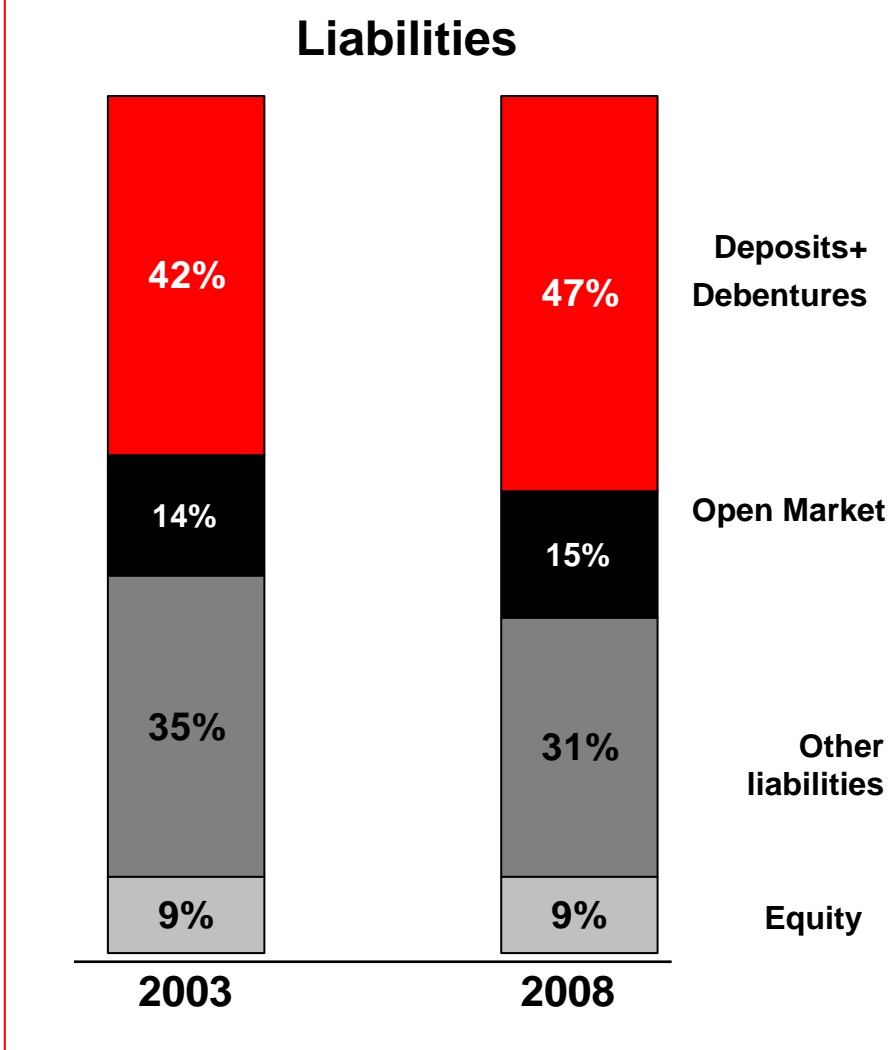
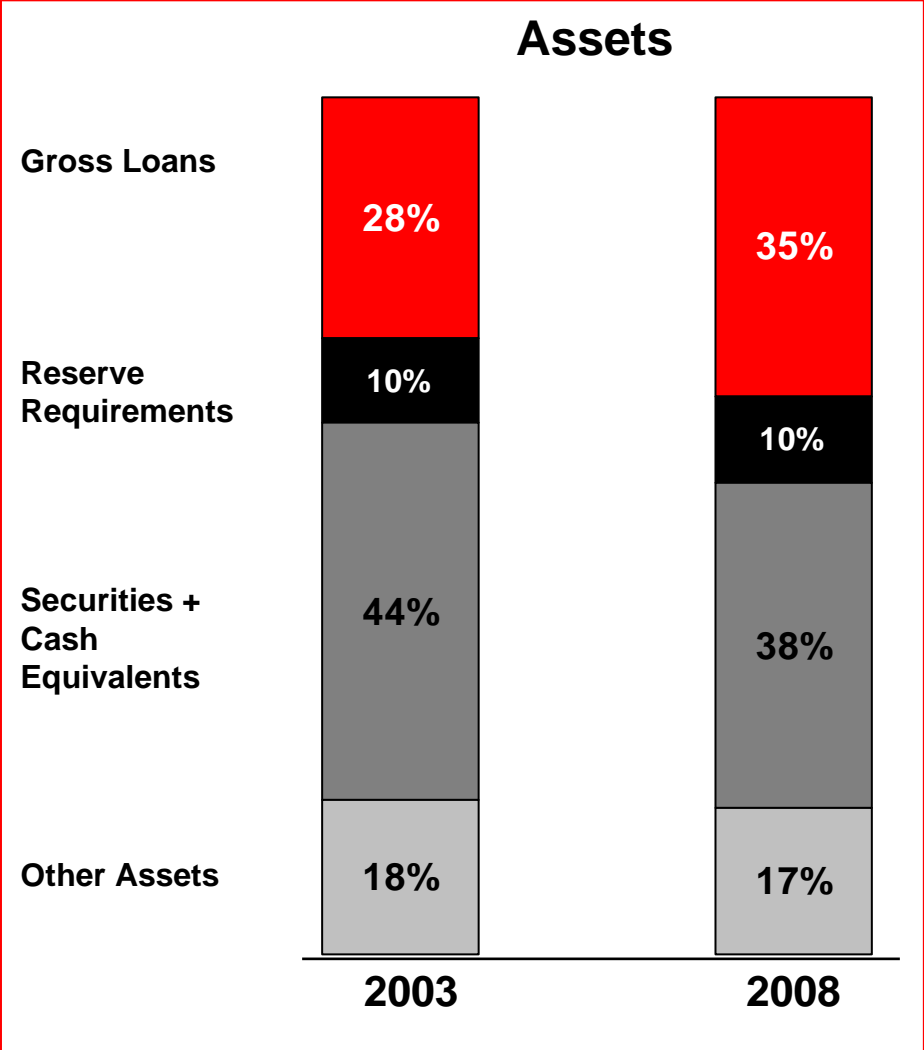


- More than US\$ 200 billion of international reserves
- Elimination of domestic public FX debt
- Reduction of external public debt
- Public debt declining
- Inflation within de Central Bank's target band



# Balance Sheet: R\$ 2,574 Billions of assets

Jun / 2008



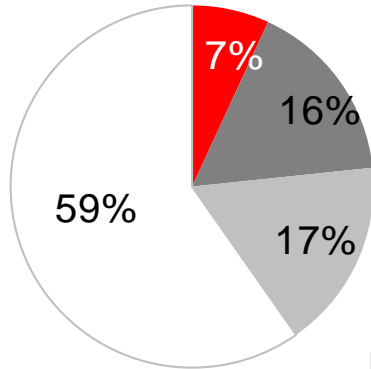
Source: Brazilian Central Bank



# Savings with significant contribution from mutual funds. Regulated loans account for 1/3 of the total loan portfolio

## SAVINGS 2003 - R\$ 910 Billions

- Demand
- Savings
- Time
- Mutual Funds



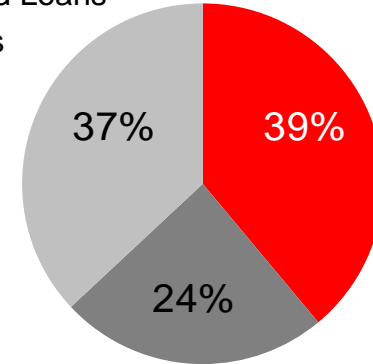
Dec/03

Participation

**Public: 49%**  
**Private: 51%**

## LOANS 2003 - R\$ 418 Billions

- Regulated Loans<sup>1</sup>
- Individuals
- Corporate



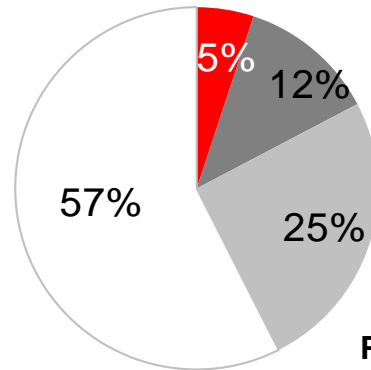
Dec/03

Participation

**Public: 34%**  
**Private: 66%**

## SAVINGS 2008 - R\$ 2,128 Billions

- Demand
- Savings
- Time
- Mutual Funds



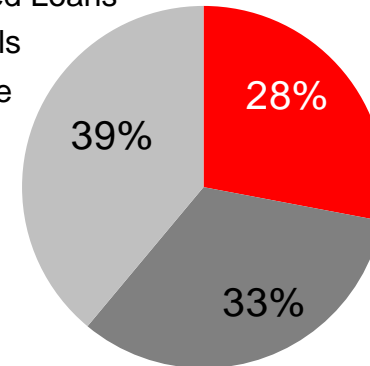
Jun/08

Participation

**Public: 43%**  
**Private: 57%**

## LOANS 2008 - R\$ 1,149 Billions

- Regulated Loans<sup>1</sup>
- Individuals
- Corporate



Jun/08

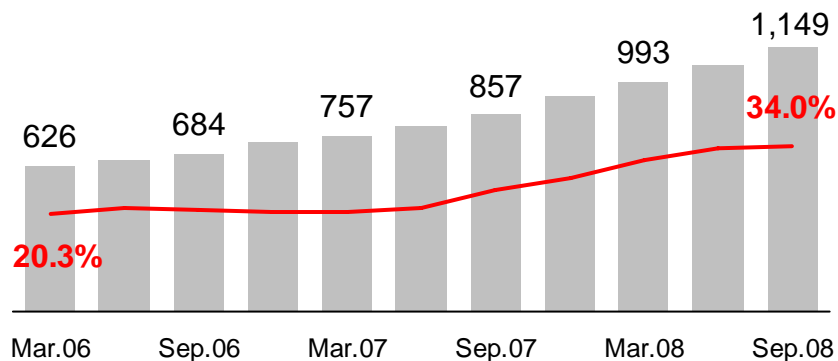
Participation

**Public: 33%**  
**Private: 67%**

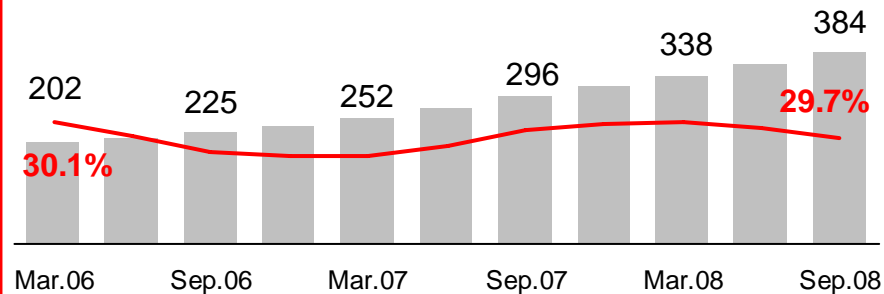
1) Includes: BNDES, Mortgage and Rural

# Loan growth driven mainly by corporate lending...

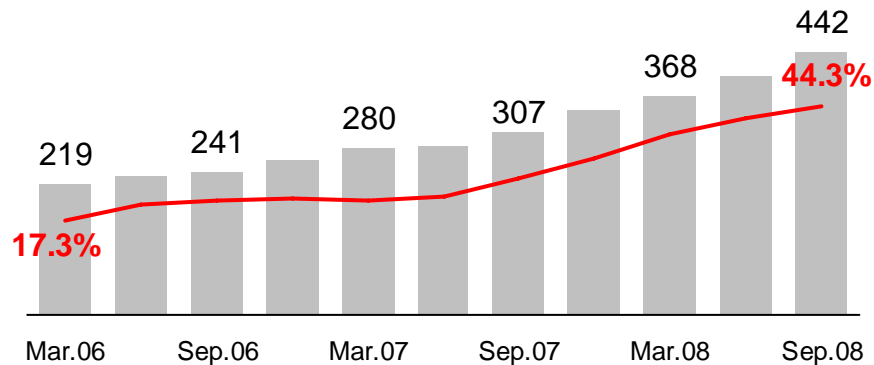
## Total Loans (R\$ Bn)



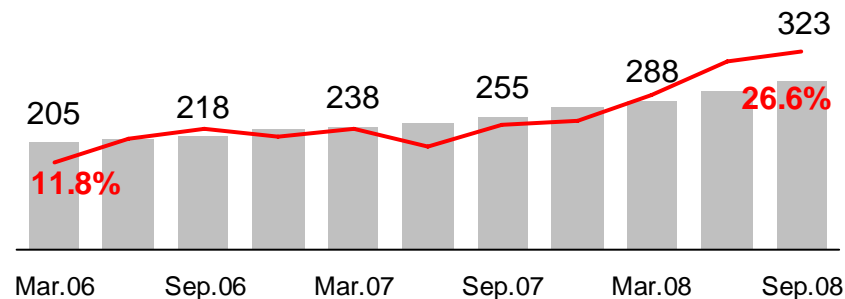
## Unrestricted Individual Loans (R\$ Bn)



## Unrestricted Corporate Loans (R\$ Bn)



## Regulated Loans (R\$ Bn)



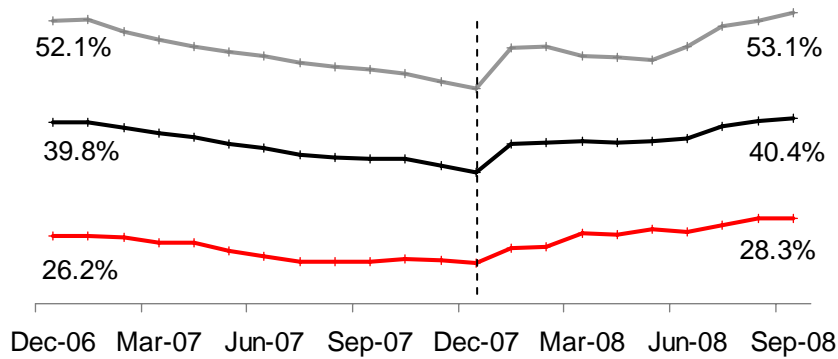
Volume

Y-o-Y Variation %

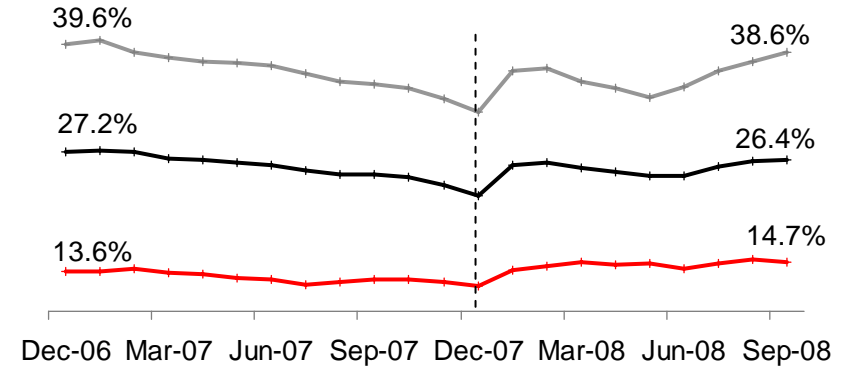


# ...with extension of loan terms, higher spreads and stable delinquency

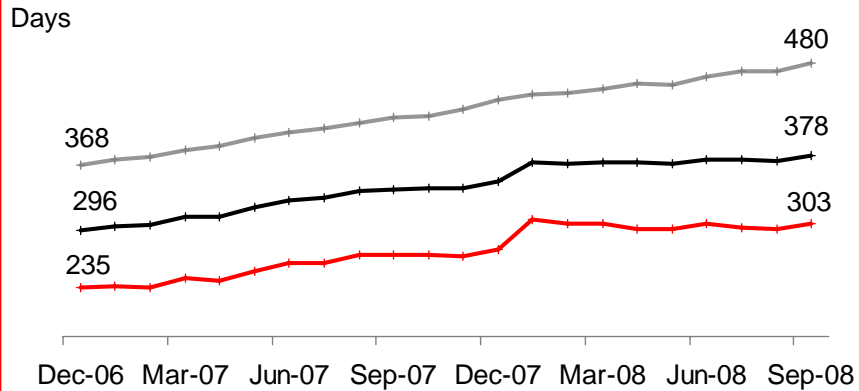
The increase in the Selic overnight rate is already reflected in customer rates...



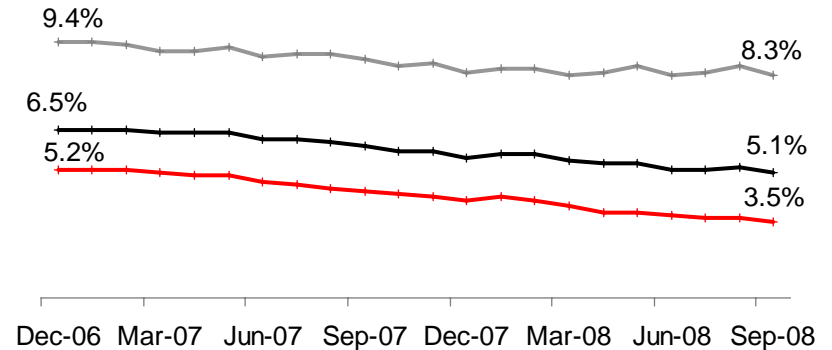
...and in spreads



Extension of loan terms...



...and stable delinquency<sup>1</sup>

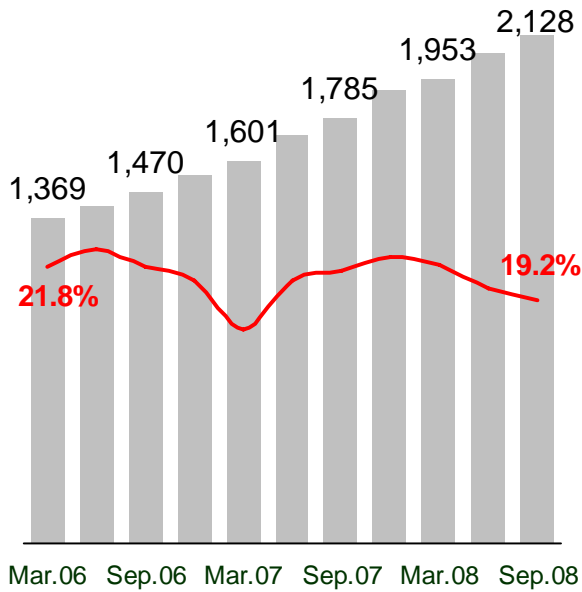


— Corporate — Individuals — Total

# Savings are rising by 19%, driven by time deposits

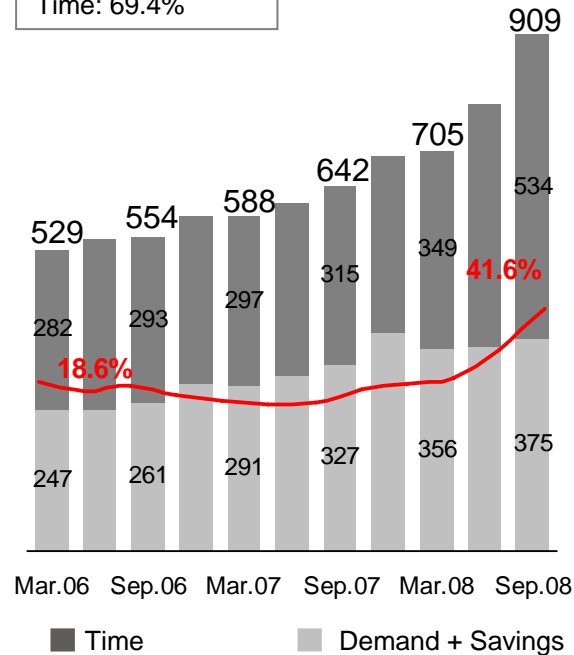
R\$ Billions

## Savings (Deposits + Mutual Funds)

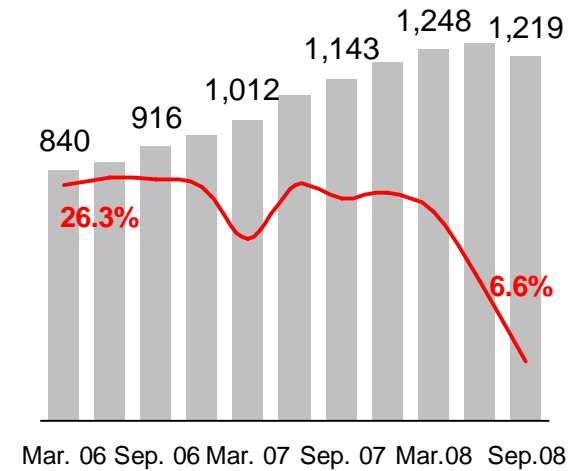


## Deposits

Demand: 7.8%  
Savings: 18.2%  
Time: 69.4%



## Mutual Funds



Volume

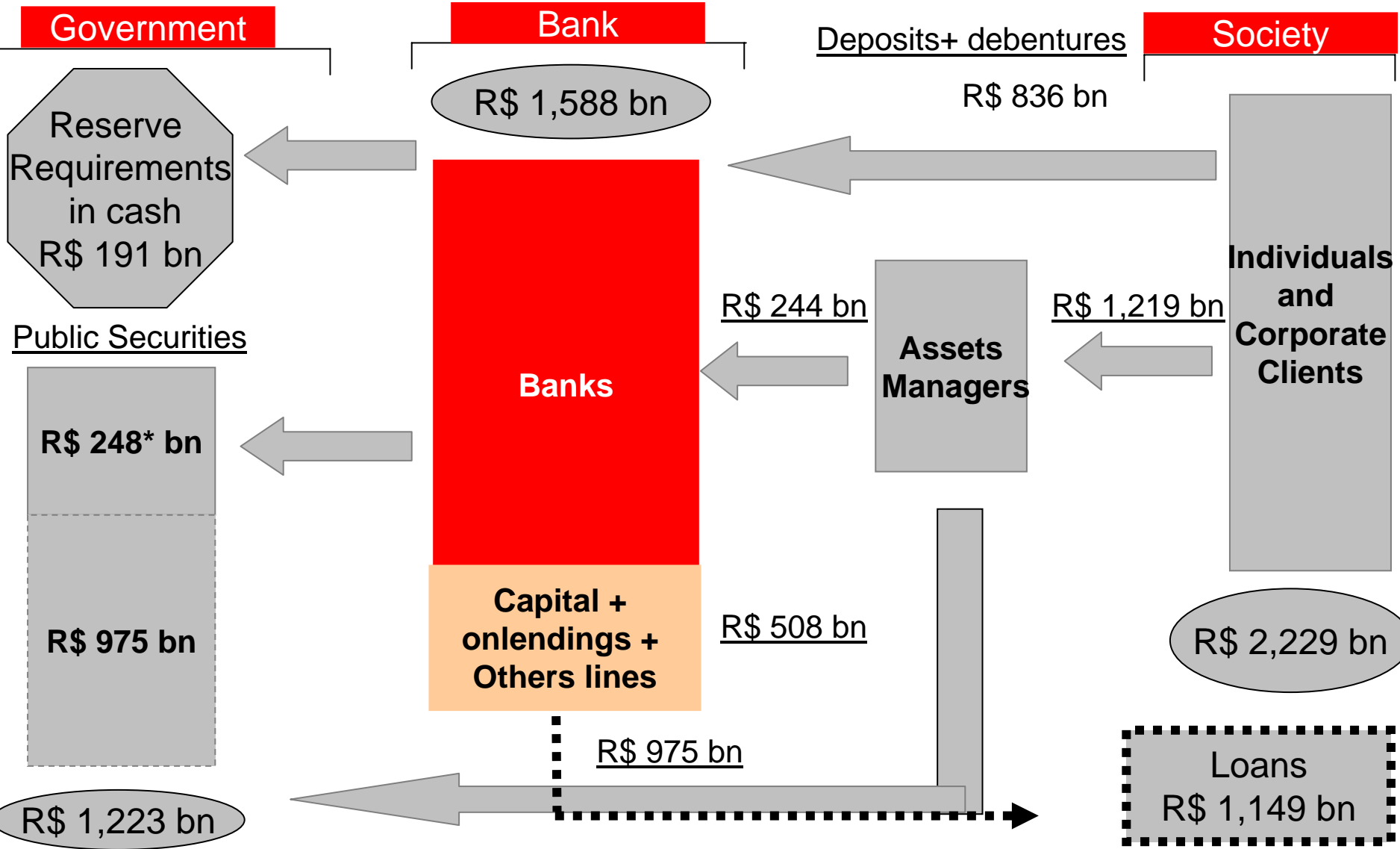
Y-o-Y Variation %

# Index

- **Characteristics and Evolution of Financial System**

- **Funding and Liquidity**

# Funding Dynamics – Financial System



Data as of Sep/2008. Source: Brazilian Central Bank and Published Balance Sheet

\* Liquid of assets and liabilities



# High reserve requirements are being gradually lowered

	Before CB Measures	BRL Million*	After CB Measures	BRL Million*	Remuneration
<b>Demand Deposits</b>					
Reserve Requirement	45%		42%		-
Additional	8%	<b>69,844</b>	5%	<b>60,157</b>	Interest Rate (Selic)
Obligatory Rural Credit	25%		30%		SELIC
<b>Savings</b>					
Reserve Requirement	20%		20%		TR + Interest of 6,17% p.a.
Additional	10%	<b>70,926</b>	10%	<b>65,660</b>	SELIC
Obligatory Mortgage	65%		65%		TR + 12% p.a.
<b>Time Deposits</b>					
Reserve Requirement	15%		15%		Linked to bonds
Additional	8%	<b>110,694</b>	5%	<b>77,847</b>	Interest Rate (Selic)
<b>Debentures</b>					
Reserve Requirement	15%	<b>20,551</b>	15%	<b>20,551</b>	Linked to Bonds
<b>Total</b>		<b>272,015</b>		<b>224,215</b>	

- ✓ Freeing up of Central Bank reserve requirements, largely interest bearing, with virtually zero effect on banks' results
- ✓ With a direct impact of approximately R\$ 56 billion in terms of additional system liquidity
- ✓ More than R\$ 54 billion of central bank reserve requirements have been removed: R\$ 19 billion to stimulate external credit lines and R\$ 35 billion for the purchase of loan portfolio from smaller financial institutions

Source: Brazilian Central Bank \* Santander estimates

# Liquidity

## Structural Situation

- ✓ Credit underpenetrated
  - ✓ High reserve requirements
  - ✓ Core deposits are liquid, but stable.
- No secondary market for time deposits.
- ✓ Interbank market almost inexistent
  - ✓ Small securitization market

## Effects of the Crisis

- ✓ Liquidity for small and medium-sized banks. ➡ Credit sale, reserve requirements
- ✓ Increased selectivity and shorter loan terms  
➡ Match assets/liabilities
- ✓ Higher volatility. Companies with exposure to derivatives ➡ Disclosure limited impact
- ✓ Scarcity of external lines of credit ➡ Central Bank auction and BNDES
- ✓ Reinforcing on-balance savings and in the retail segment ➡ back to basics



# Conclusions

- ✓ **Strong fundamentals**
  - Economy
  - Banking System
- ✓ **System with good pace**
  - No toxic products
  - Not leveraged
- ✓ **Steps in the right direction**

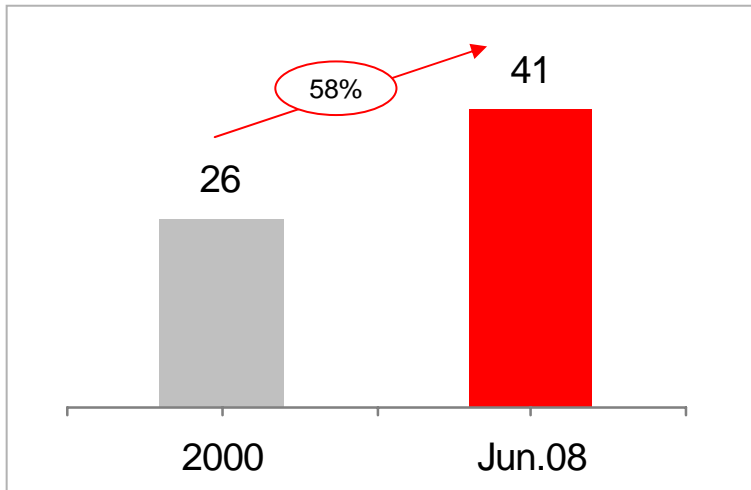


# Annexes

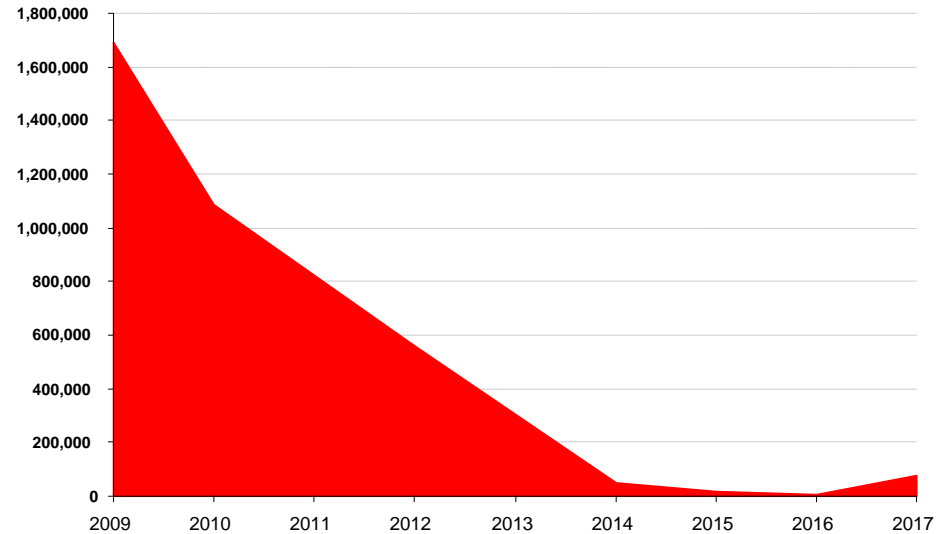
# Market Depth

## Average Term of Debt Securities

Months



## Open Contracts Added – BMF (Maturing in Jan)



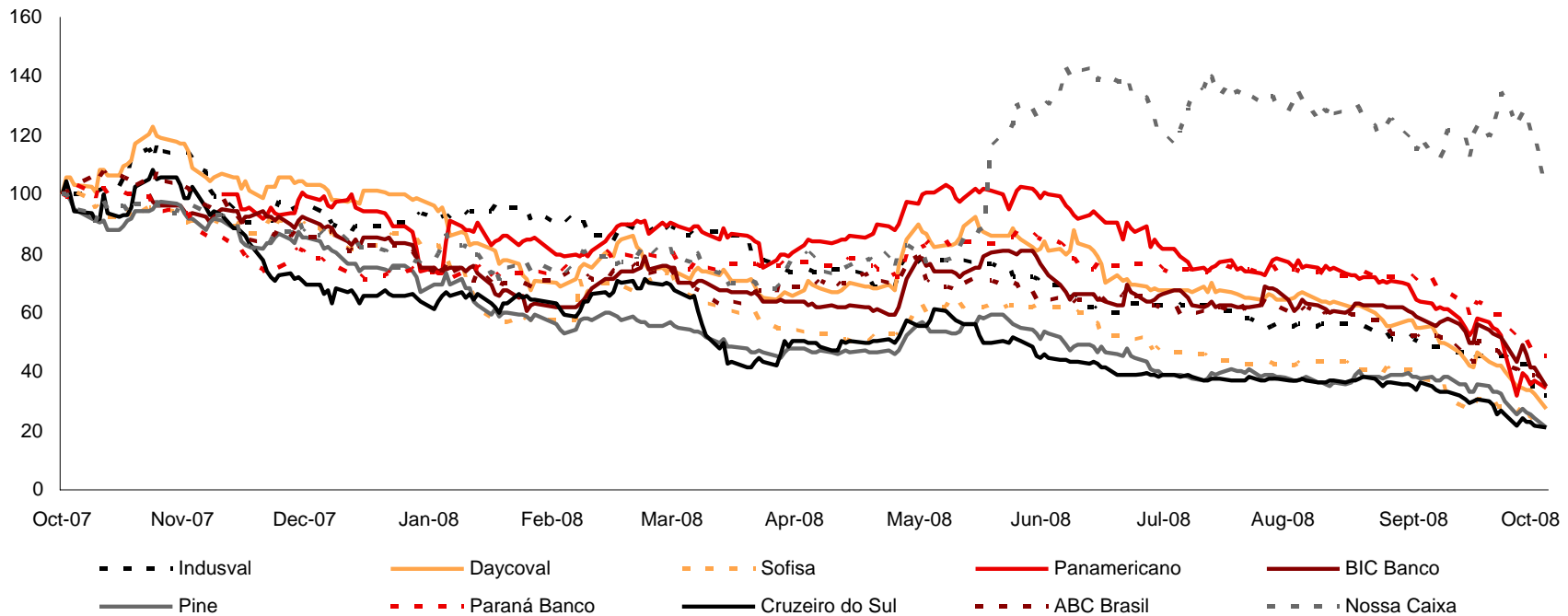
DI	Open Contracts added (MM)	Average (MM)
Jan/02	250	80
Jan/04	309	105
Jan/06	1,607	316
Jan/08	1,625	1,055
Jan/10 (E)	2,140	1,057
<b>CAGR</b>	<b>171%</b>	<b>191%</b>

# The recent market turbulence has affected the share prices of small and medium-sized national banks...

...Small and medium-sized banks have lost an average of >60%/80% of their market value in the last 12 months

## Share Performances of Small and Medium-Sized Banks

Base 100

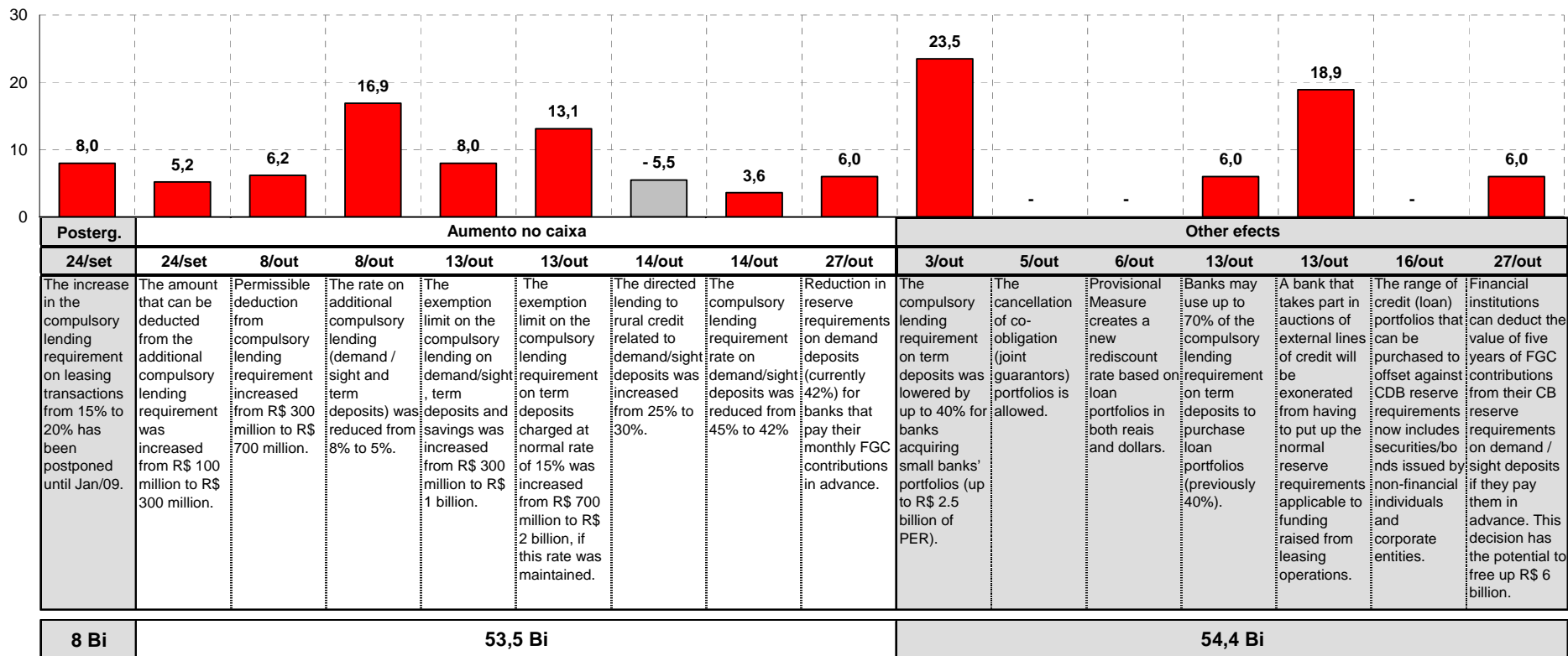


- Medium-sized banks appear to be experiencing more liquidity problems (increases in prices and terms)
- The origination of portfolio funds is in decline or has ground to a complete halt
- The Central Bank: stimulating the system by lowering reserve requirements, purchasing bank portfolios with a net worth of < R\$7.0 billion

Source: Bloomberg (Oct. 7., 2008)



# Financial System: Central Bank Regulations





# The Central Bank Announced New Regulations at the end of 2007

## Regulations of Fees/Tariffs

- Elimination of TLA - Dec/2007
- Information about total cost of loans – Mar/2008
- Offer of service packages in accordance with CB regulation – Apr/2008
- Elimination of TAC<sup>1</sup> – Apr/2008
- Impact: reduction in increase in fees at the main banks of 20% in the last two years to approximately 5% in 2008

## Increase in CSLL<sup>2</sup>

- Effective since May 2008, the contribution rate rose from 8% to 15% for Financial Institutions.
- Tax rate increase of 34% to 40%

## Inclusion of Leasing

- Reserve requirements for leasing companies, implemented in Jan/08, gradually increasing to a rate capped at 25%. First implemented in May/08 with 5% and ending in Mar/09 with 25%. The government recently postponed the institution's calendar of rates, largely due to the crisis in terms of international liquidity.

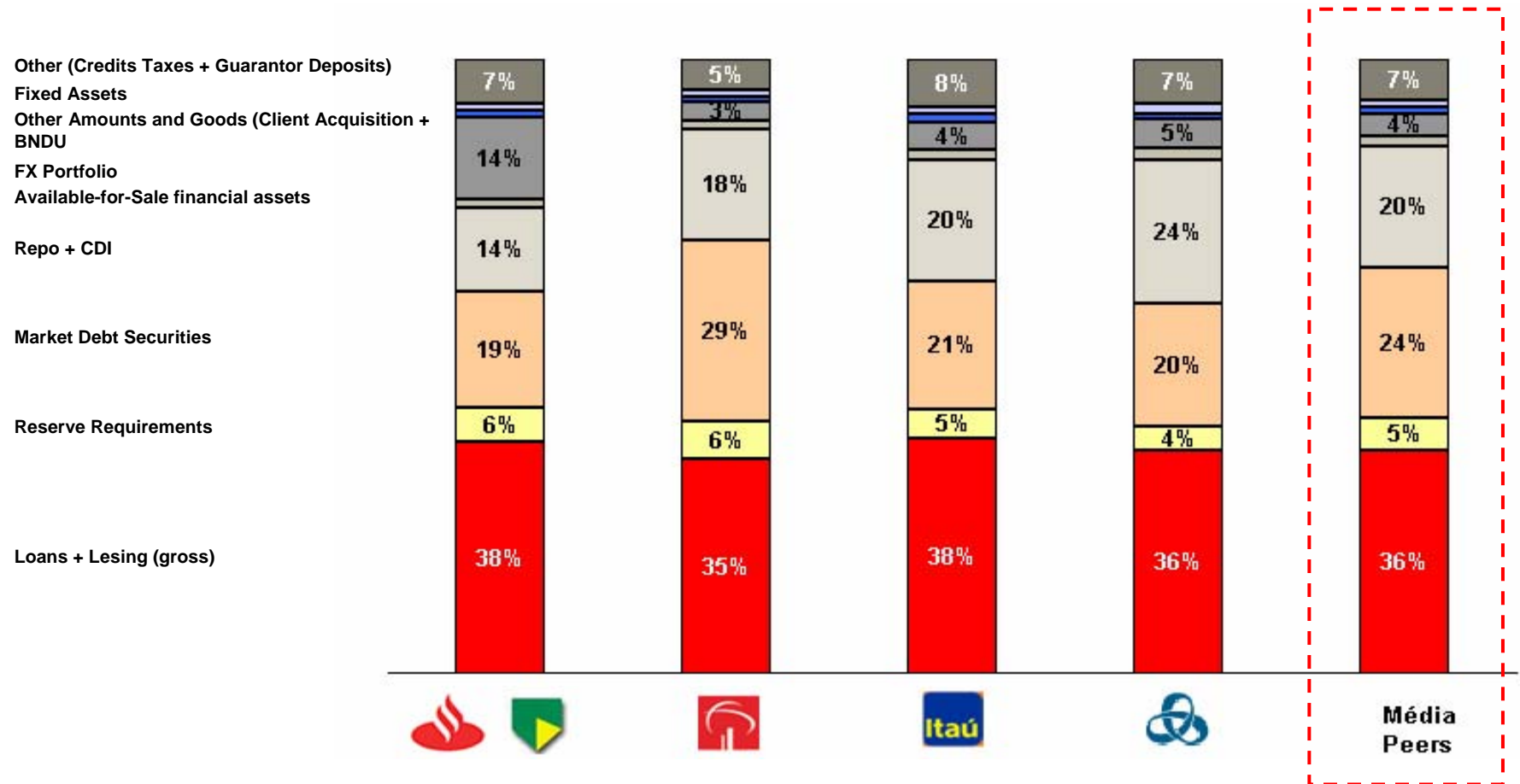
## Call Center

- New rules will become effective from December 1, 2008, establishing 24h service, free calls, solutions to requests within a maximum of 5 working days.

<sup>1</sup> TAC: Tariff charged for Taking out a Loan 2. CSLL: Social Contribution on Corporate Net Income

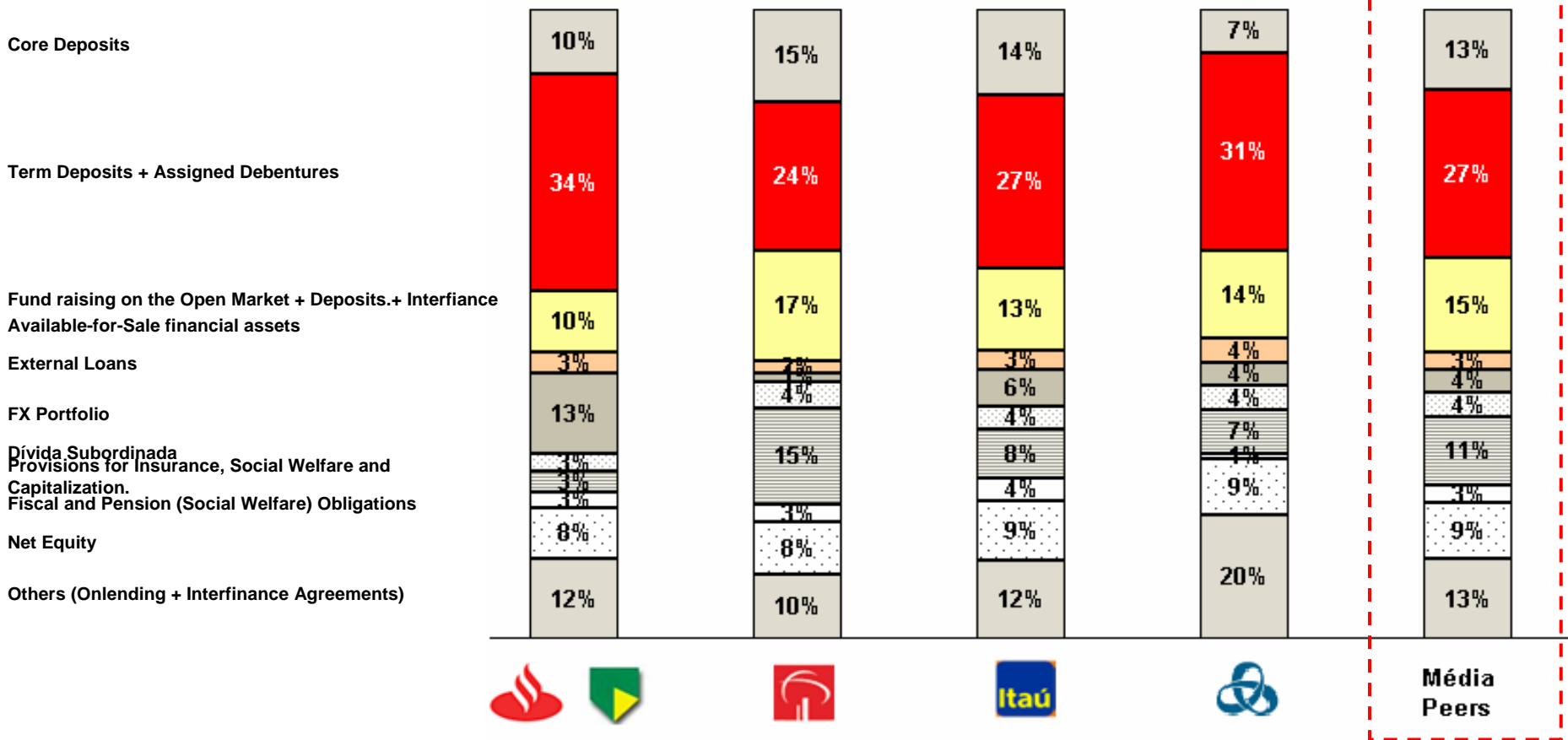
# Peers – Total Assets

Structure of our balance sheet is very similar to our main competitors. Approximately 37% of the balance in loans. Highly dependent on public securities earmarked for reserve requirements and other regulatory requirements (89% at Santander).



# Peers – Total Liabilities

A market highly regulated for Core Deposits. Focus on Savings in the form of Term Deposits. There is no secondary market for CDBs, and liabilities are extremely liquid on a daily basis. Banks cannot make local issues.



# Competition by Product

**Santander + Real: High Concentration of Term Deposits.  
Itaú and Bradesco have a larger share of Core Deposits**

R\$ MM

SALDO	REAL + SANT	ITAÚ	BRADESCO	UNIBANCO	MERCADO
Depósito à Vista	12.500	18.859	25.884	3.568	140.296
Poupança	18.244	28.881	34.145	8.517	247.793
Depósito à Prazo	84.819	36.684	62.249	39.176	532.363
Debêntures Compromissadas	17.925	60.272	34.006	17.655	163.121
CDB Subordinado	7.329	11.203	14.398	5.932	42.507
LH / LCI / LCA	3.696	2.754	1.027	2.991	13.955
Patrimônio Líquido	23.649	32.278	33.797	12.824	271.721
<b>TOTAL</b>	<b>168.162</b>	<b>190.932</b>	<b>205.506</b>	<b>90.663</b>	<b>1.411.756</b>

PART. FUNDING	REAL + SANT	ITAÚ	BRADESCO	UNIBANCO	MERCADO
Depósito à Vista	7,4%	9,9%	12,6%	3,9%	9,9%
Poupança	10,8%	15,1%	16,6%	9,4%	17,6%
Depósito à Prazo	50,4%	19,2%	30,3%	43,2%	37,7%
Debêntures Compromissadas	10,7%	31,6%	16,5%	19,5%	11,6%
CDB Subordinado	4,4%	5,9%	7,0%	6,5%	3,0%
LH / LCI / LCA	2,2%	1,4%	0,5%	3,3%	1,0%
Patrimônio Líquido	14,1%	16,9%	16,4%	14,1%	19,2%
<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

PART. MERCADO	REAL + SANT	ITAÚ	BRADESCO	UNIBANCO	MERCADO
Depósito à Vista	8,9%	13,4%	18,4%	2,5%	100,0%
Poupança	7,4%	11,7%	13,8%	3,4%	100,0%
Depósito à Prazo	15,9%	6,9%	11,7%	7,4%	100,0%
Debêntures Compromissadas	11,0%	36,9%	20,8%	10,8%	100,0%
CDB Subordinado	17,2%	26,4%	33,9%	14,0%	100,0%
LH / LCI / LCA	26,5%	19,7%	7,4%	21,4%	100,0%
Patrimônio Líquido	8,7%	11,9%	12,4%	4,7%	100,0%
<b>TOTAL</b>	<b>11,9%</b>	<b>13,5%</b>	<b>14,6%</b>	<b>6,4%</b>	<b>100,0%</b>



