Cidade de Deus, 18 April 2011.

Dear Sara:

We would like to thank you for the opportunity you gave us to contribute to the Exposure Draft and we emphasize that systematic comments show to be efficient, resulting in substantial gains to financial institutions control framework.

Referring to the meeting held on April 1, 2011, we would like to add few comments:

1 – The model under consideration should provide additional guidance on the ‘good book’ and ‘bad book,’ such as, for instance, on the floor of the ‘good book,’ which applies the expected loss as comparison parameter in a foreseeable future.

2 – In addition, in-depth credit reclassification criteria are also required from one to another portfolio (from ‘good book’ to ‘bad book’, and vice-versa).

3 – Without the in-depth criteria mentioned above, it would be difficult to carry out a quantitative analysis, even if preliminarily, thus, the need of conducting a quantitative impact study, such as, for instance, Basel QIIs.

4 – We see the need of starting discussions on a simplified standardized model to be adopted by financial institutions which do not have internal models.

We expect to have answered all the most relevant issues, but, due to the complexity and the multidisciplinary nature thereof, in a later stage, we would like to send suggestions if new topics arise. We remain at your disposal for any further clarification you may require.

Sincerely yours,
Question 1

Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Answer: Yes. We understand that the Supplement to Exposure Draft ED/2009/12 – Financial Instruments: Amortized Cost and Impairment discusses both the loss incurred and the expected loss, thus, improving current model.

Question 2

Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

Answer: We understand that the proposed model may also be applied to closed portfolios and other financial instruments, but lacks a forecast to enable an in-depth analysis of individually relevant items.

Nevertheless, we point out the eventual drawbacks to define a model applied to the closed portfolio.

Question 3

Do you agree that for financial assets in the ‘good book’ it is appropriate to recognize the impairment allowance using the approach described above? Why or why not?

Answer: We agree with the deferral of loss estimate for the ‘good book’, since the criterion is in line with the principle of comparing revenues with expenses as provided for in the Framework.
Question 4

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Answer: Yes, we understand that the determination of loss for the 'good book' and its recognition on a deferred basis is operational.

Question 5

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Answer: Yes, we understand that in the proposed approach the value recorded will represent the institution's risk management model, i.e., the book value will reflect the potential portfolio loss and assets will represent the economic value of the business.

Question 6

Is the requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Answer: Yes, the requirements to differentiate both groups are clearly defined and observe the model proposed by IASB, i.e., based on principles, thus, allowing each entity to consider in its expected credit loss measurement model, the peculiarities of its business.

Question 7

Is the requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

Answer: Yes, pointing out that internal rules will be necessary to differentiate, to determine the financial assets impairment, clearly and consistently, always in line with the principles of the model proposed by IASB.
Question 8

Do you agree with the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Answer: We agree, as the model will reflect how the risk management area assesses the quality and the behavior of the institution's loan portfolio.

Question 9

The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:

a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?
   Answer: Yes. The determination of a minimum provision amount for the ‘good book’ is appropriate, within a prudential view.

b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?
   Answer: No, since the institution would be already applying this floor on a systematic basis.

c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?
   Answer: Yes, since Basel II principles provide for a 12-month concept for expected losses.

d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?
   Answer: Yes.

e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.
   Answer: No, since periods exceeding twelve months may compromise the accuracy of portfolio's predictability.

f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognized under the ‘floor’ requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.
Answer: No comments.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

Answer: Currently, we do not have sensitivity analysis or simulation tests to support our answer.

Question 11

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?
   Answer: Yes, foreseen flexibilities allow us to adjust the loss measurement model to the entity's characteristics and making it operational.

b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?
   Answer: See answer above

Question 12

Would you prefer the IASB approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (i.e. to recognize expected credit losses over the life of the assets)? Why or why not?

Answer: No. We prefer the approach contained in the common proposal, since it adds a prudential view when credit losses are measured, a criterion we deem appropriate.

Question 13

Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (i.e. to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?
Answer: No. We understand that the IASB approach reflects as appropriate as possible the credit loss and is in line with the principle of comparing revenues with expenses (Framework).

Question 14

Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

Answer: No, the separate approach is operationally more feasible.

Question 15

Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

Answer: No, we understand that this only applies to the loan amount to be effectively taken out.

Question 16

Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

Answer: Yes, since loan commitments and loan operations are usually managed by the same business models and information systems.

Question 17

Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

Answer: Yes, as we deem this presentation as the most appropriate.

Question 18

a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

Answer: Yes, but taking into account that the institution is adopting the IFRS for the first time, we understand that the reporting level will be naturally and continuously improved.

b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

Answer: No comments.
Question 19

Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

Answer: No, since we understand that the disclosure of amounts transferred does not result in relevant information to the reader.