



BANCO SUMITOMO MITSUI
BRASILEIRO S.A.

Risk Management Report



As of September 30, 2011

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1. INTRODUCTION

The focus and concern with risk management have been intensifying over the past years, and it is perceived the need for financial institutions to have an increasingly robust and transparent strategy, able to identify, assess and manage risks.

Banco Sumitomo Mitsui Brasileiro S/A ("BSMB") believes that risk management is essential to promoting stability in financial institutions and that adopting a transparency attitude when disclosing information in regards to this activity strengthens the Institution, contributing to the solidity of the financial system.

This report aims to provide access to information about the risk management structure of the Group, management practices and control of the major risks to which it is exposed, considering the adequacy of capital as well.

2. CORPORATE PROFILE

BSMB's target market is the segment "corporate" for large enterprises and Japanese companies, in regards to extension of credit, however, in some business segments it is related to smaller sized companies, or even with individuals for purposes of fund raising in the third-party asset management segment.

Since 2005 the Institution has been operating in the Clean Development Mechanism (CDM) market, both in Brazil and Japan, by providing specialized services in the Carbon Market segment.

Over the past years, BSMB has been supporting initiatives that aim to integrate sustainability and financial market, playing a key role in the adoption of best practices against global climate changes.

3. CORPORATE GOVERNANCE

The Corporate Governance relies on the participation of all hierarchical levels, and aims to optimize the performance of the Institution. This process involves the participation of all layers contemplated by the scope of Corporate Governance, which comprises the Board of Directors and the various areas of business, operations, products and services.

The Institution's Board approves the Strategy Plan, new products and services in BSMB, its annual budget, defines its targeted customers, examines and decides about the events and issues affecting BSMB's image and its position on national and international market and participates in various committees of the institution.

To guarantee the implementation of existing policies and guidelines in force, several committees have been established:

3.1. Asset and Liability Committee

- Deliberates the asset and liability management policy, credit and liquidity risks management.

3.2. Credit Committee

- Analyzes loan portfolio risks and proposed credit limits, establishing restrictions on loans to companies, companies groups and/or sectors/segments of the economy, always aiming the security of the Institution.

3.3. New Products and Services Committee

- Analyzes the risks to which involved in developing new products and services;
- Recommends or not the approval the New Product and Service to BSMB Board, which will determine the implementation or not.

3.4. Money Laundering Prevention Committee

- Ensures that policies and procedures related to Money Laundering Prevention in the Institution are being followed by all employees;
- Ensures that face-to-face trainings are conducted annually;
- Decides on the closure of business relationship with customers involved in money laundering and terrorism financing crimes.

3.5. Operational Risk Committee

- Overview of internal and external events related to operational risk;
- Inherent and residual risks;
- Database of operational risk events;
- Business Continuity Plan;
- Compliance with norms established.

3.6. Compliance Committe

- Ensures the proper administration of the Institution's activities;
- Enhances the support to the administration in attendance to the institution's strategy, policies and measures adopted;
- Ensures the dissemination of internal controls, risk mitigation and compliance with local and international applicable laws.

4. RISK MANAGEMENT

BSMB is constantly pursuing to evaluate and improve its risk management structure, influencing in the culture and operation mode of this Institution.

Such practice is based on procedures, methods and standardized techniques and aims to monitor, measure, mitigate and report about risk exposures of any nature in the various activities and processes developed products or services offered, in order to support the continued sustainable development of its activities.

BSMB's Risk Management structure has been performing successfully the control and mitigation of risks that may cause damage or losses to the customers, to the environment or to its own image.

5. RISKS APPETITE

The appetite for risks determines the institution's desire in taking risks to achieve its goals versus the potential return. This appetite is influenced by several factors, both internal and external, and determined by the Board of the Institution, in line with its corporate strategy.

The monitoring process of the risks is corporate, being considered since the budget planning process of the Institution. The appetite for risks is continually reassessed, according to the changes in the environment - both internal and market changes.

BSMS is characterized by its very conservative profile, presenting the involvement of the governance structure in the definition and constant monitoring of the risks appetite adopted.

6. RISKS EXPOSURE

All organizations are subject to several types of risk, financial or non financial, and caused by internal or external factors. Featuring deep commitment to ethics, BSMB performs continuous monitoring of the risks to which it is exposed, providing security and comfort to its customers. Among the major types of risks inherent in banking activities, we highlight:

6.1. Financial and Non Financial Risks

Credit Risk: it is the possibility of losses associated to the non-fulfillment or partial fulfillment of the financial obligations agreed, by the borrower or the counterparty;

Market Risk: it is the possibility of devaluation or appreciation of an asset due to the fluctuation in prices or interest rates of financial assets of the institution, since the asset and liability portfolios may have mismatched terms, indexes or currencies;

Liquidity Risk: it is the possibility of mismatches in the cash flow caused by difficulties in obtaining resources, forbidden the liquidation of positions;

Operational Risk: it is the loss resulting from inadequate or faulty internal processes, people and systems or even external events. It includes the legal risk.

7. CORPORATE RISK MANAGEMENT PROCESS

7.1. Objectives and Strategies

For the institution, the principles of prudence and ethics are always present in the policies, norms, procedures and goals. Decisions are based on factors that combine return on risk measured and evaluated. It also promotes the acculturation of employees at all levels.

All these initiatives provide the expansion of the operational efficiency of the institution and the consequent reduction in the level of losses, while optimizing the use of available capital.

7.2. Risk Management Policies

BSMB has different policies, norms and procedures for performing risk management. These rules establish the basic guidelines to operate, expressed by the Board in accordance with the standards of integrity and ethical values and throughout all activities of the Institution.

Policies, norms and procedures ensure that BSMB has a control structure consistent with the nature of its operations, the complexity of their products and services, activities, processes, systems and the extent of its risks exposure, allowing proper management, in order to ensure that these are identified, assessed, monitored, controlled and reported efficiently and effectively.

Risk management policies are aligned with the strategic goals of the Institution, to the best national and international practices and in compliance with laws and regulations, being reviewed, at least annually, by the Board and made available to all employees through internal communication tool.

7.3. Risk Management Methodology

BSMB approaches risk management inherent to its activities within a process of continuous improvement, aiming monitor the business evolution and minimize the risks that may compromise the quality of such management.

The risk management methodology is adequate to BSMB's activities profile, and it is worth mentioning that the Compliance structure and Internal Audit are important elements in the improvement of our methodology.

The Organization's risk management framework allows risks to be effectively identified, measured, mitigated, monitored and reported to the Board.

8. CREDIT RISK

Credit Risk is defined as the possibility of losses associated to the non-fulfilment by the borrower or counterparty to their respective obligations under the terms agreed, the devaluation of credit assets, resulting from deterioration in the borrower's risk rating, the reduction in earnings or remuneration, the advantages granted in the renegotiation and recovery costs.

Credit Risk is strongly associated with other types of risk, such as Market, Liquidity and Settlement risks, among others. These types of risks often stem from the Credit Risk and may occur simultaneously.

According to the Resolution 3.721, the Bank has a single component responsible for managing credit, market and liquidity risks. The structure's size is proportionate to the risks related to the products complexity offered by the Institution, operations nature and guidelines for the Bank's risk exposure and companies of the Group.

In the Bank's organizational structure, the function of Risk Management is represented by an independent Board from audit and business areas, which reports directly to the vice-presidency of the Bank, being essential to have a vision and control independently of risk.

The Board is responsible for providing the necessary resources for effective credit risk management and for monitoring the activities related to such management.

Periodic reports, as well as the guidelines adopted by Credit Risk management department are evaluated and approved by the Board of the Bank.

8.1. Credit Risk Management Process

To control the risk within acceptable levels in relation to the capital amount, after the identification of unexpected losses by regular measurement of credit risk, it is necessary to establish a limit of unexpected loss for purposes of internal control, and assume the risk only within this previous established limit.

Credit risk management is performed on a corporate and centralized manner. All exposures to credit risk are analyzed, measured, classified and monitored independently by Credit Risk Management department.

BSMB's portfolio management contemplates the control of the credit risk concentration, ie the excessive concentration risk of credit to:

- a) a particular customer or group;
- b) a particular sector (sector type);
- c) Products/projects in a particular business area.

The credit concentration risk, once materialized, may cause significant loss for the Bank's Capital amount and noncompliance with Resolution 2.844. Therefore, regular reviews of lending for customers and customer groups with large scale loans will be conducted, and a posture of credit to certain sectors in particular for which credit is concentrated are established.

BSMB aims, at all times, to comply with Resolution 2.844, which establishes 25% of the Regulatory Shareholders Equity as maximum limit for customer exposure.

Credit Risk department participates actively in the improvement process of the customers' risk rating models, performing periodic monitoring of the main default events, the provisioning level against expected and unexpected losses.

Credit Risk department operates continuously in the review of internal processes, training and demands of information technology and risk assessment, when creating or reviewing products and services.

According to the information dissemination philosophy about risk, meetings are held focusing on the credit risk monitoring and control, the credit committee, with the participation of the business departments as well as Board members.

The credit risk managing process includes a periodic review which aims to incorporate the best practices and improvement of management processes.

8.2. Counterparty Credit Risk

The counterparty credit risk, to which BSMB is exposed, is the possibility that a counterparty does not fulfill its obligations, financial or not, causing losses to the institution.

BSMB has control over the net position (ie the difference between purchase and sale) and potential future exposure of operations where there is the counterparty risk. Every risk exposure and counterparty performance is analyzed in the extension of credit limit process as part of general credit limits granted to customers.

8.3. Extension of credit

The extension of credit process has as main bases: security, profitability, potential growth, liquidity and overall relationship with the group.

In the evaluation and overall risk rating of the customer or economic group the following aspects are considered: quantitative aspects (economic and financial indicators) and qualitative aspects (personal information and business prospects of the company), related to the customers capacity to fulfill their commitments.

All loans operation, regardless of their value and market segment of the borrower's credit, are evaluated according to the criteria adopted by the Bank.

Loan proposals transact through an overall system used by the parent company Sumitomo Mitsui Banking Corporation (“Head Office”), automated and parameterized, which purpose is to provide indispensable information for analysis, granting and monitoring loans, thus minimizing the inherent risks in the operations and according to Head Office’s Credit Policy, all loan proposals comply with the approval levels established in SMBC Group.

8.4. Credit Risk Mitigation

The guarantees are analyzed individually for each customer, based on strict rules designated by the Head Office involving the whole process for extension of credit.

Thus, the definition of credit risk mitigators are performed individually, when granting credit, considering the settlement capacity through cash flow analysis and understanding of the potential and actual business conditions.

Guarantees are considered as a second source of payment, to ensure the credit recovery and its evaluation is performed individually for each customer based on strict rules of the Head Office.

The evaluation of these instruments’ efficiency is carefully accomplished periodically, in order to ensure its sufficiency and liquidity.

BSMB uses the option provided in the Articles 20 to 22 of Circular No. 3.360 in transactions involving securities issued by National Treasury.

8.5. Credit Risk Rating

The methodology for evaluating credit risk, besides providing subsidies to establish minimum standards for extension of credit and managing risks, enables the definition of differentiated credit policies according to the characteristics and size of the customer. In this sense, it provides foundation for both the correct transactions pricing as well as for the definition of adequate guarantees in every situation.

BSMB complies with local regulations, with specific criteria for the classification of credit operations and rules for the allowance of doubtful debts.

This regulation determines that credit operations classification for a customer or economic group should be defined considering the one that presents the higher risk, assuming, exceptionally, diverse classification for an operation, observed the nature aspects and purpose of the transaction, the guarantees characteristics, especially in regards to the adequacy and liquidity, and the transaction amount. For conservatism, BSMB established a lower limit than the determined by Brazilian Central Bank.

In regards to advance operations for foreign exchange contracts, the imports financing which present delays longer than thirty days, as well as depositor advance counted from thirty days of its occurrence, should be classified, at least, as risk level G, as described in the resolution.

Customers risk ratings are based on statistics procedures and judgmental analysis, quantitative and qualitative information. Classifications are made in a corporate level and followed regularly, with the objective of preserving the loan portfolio quality.

For constituting the applicable provisions, it must be kept to criteria established by Resolution 2.682 of the National Monetary Council.

8.6. Credit Risk Exposure

Weighted values in thousand R\$:

Weighting Factor	Sep 30, 2011
20	6.023
50	84.562
100	1.134.293
300	21
Total	1.224.899

Average weighted value in the trimester:

Weighting Factor	Sep 30, 2011
20	4.526
50	91.548
100	1.030.750
300	490
Total	1.127.314

Credit Portfolio

Credit operation portfolio is summarized as following:

By operation

Description	Sep 30, 2011
Overdraft account	27.300
Resolution no. 3844	5.584
BNDES on-lending	29
Compror financing	4.440
Working Capital	56.032
Vendor financing	902
Export Credit Note (NCE)	83.210
Financing for individuals	67
Financing in foreign currency	104
Total loans operations	177.669
Advances on foreign exchange contracts	483.300
Income receivable from advances	3.735
Total loans portfolio	664.703

By concentration

	Sep 30, 2011
20 largest customers balance	638.171
Portfolio rating %	96,00%

By business sector

Private sector	Sep 30, 2011
Industry	553.288
Trade	80.889
Other services	30.459
Individuals	67
Total	664.703

By maturity

BSMB did not have operations in delay for this Quarter.

BSMB did not have operations written off as losses in the periods herein reported.

By rating

Trimester	Risk rating	Provision rate - %	Total transactions	% of portfolio	Allowance recognized
Sep 30, 2011	AA	=	443.302	67	948
	A	0,5	200.782	30	1.612
	B	1,0	20.619	3	277
			664.703	100	2.837

We present below the amounts related to contracts which there is no role of clearinghouse as main counterparty, segregated into contracts without and with guarantee:

Product	Contracts	Sep 30, 2011
Repo operations	With guarantees	204.696
	No guarantees	-
Unsettled operations	With guarantees	-
	No guarantees	703.220
Other Operations	With guarantees	-
	No guarantees	1.166.878

We present below the amounts related to contracts which there is role of clearinghouse as main counterparty, segregated into contracts without and with guarantee:

Product	Contracts	Sep 30, 2011
Derivatives	With guarantees	62.976
	No guarantees	-
Other Operations	With guarantees	-
	No guarantees	75.540

BSMB does not operate in credit derivatives segment and does not use compensation arrangements as defined in Resolution no. 3.263 of the National Monetary Council.

8.7. Internal Communication

Credit risk is daily monitored in order to maintain the risk levels in accordance with the limits established by the Institution. Risk management reports are available to business areas and the Board.

9. MARKET RISK

Market risk is the uncertainty of a financial instrument value or an instrument portfolio net position as result of market conditions changes; it is the possibility of losses resulting from fluctuations in market values positions held by the bank. It includes exchange rate risk and interest rate risk.

Exchange rate risk is the possibility of loss due to changes in currency value equivalent to a position in foreign currencies attributable to a change in the exchange rate.

Interest rate risk is the possibility of loss due to changes in the present value of future cash flow attributable to changes in interest rates.

In line with best corporate governance practices, aiming to preserve and strengthen Market and Liquidity risks management in the Institution, as well as comply with the provisions of Resolution no. 3.464, of the National Monetary Council, market risk management in BSMB involves many areas, which have specific responsibilities in the process, ensuring an effective framework for measuring and controlling market risk. The Board approved the Market and Liquidity Risks Management Policy, which review is conducted, at least annually, in order to provide the main guidelines for performance acceptance, control and market and liquidity risks management.

9.1. Market Risk Process Management

The Institution's market risk exposure profile is quite conservative, in which guidelines and limits are daily monitored by an independent risk unit.

Market Risk Management Policy is based on daily measurements of the Bank's market risk positions, control limits for positions, divided into limits for exposure to interest rate and exchange rate exposure, besides Limits/Guidelines to "Stop Loss". Risk Management department also monitors market risk through the methodology of Value at Risk (VAR) parametric and stress tests.

9.2. Limits definition

BSMB's limits structure is defined by the Head Office's risk department, according to the global policy from Sumitomo Mitsui Group, taking into consideration the BSMB's profile in the country.

In case any changes are necessary, it can only be made after a competent jurisdiction's approval.

9.3. Limits for Interest Rates Exposure

Controls in BSMB related to Limits for Interest Rate Exposure follow Brazilian Central Bank regulations in force.

9.4. Risk Measurement

In regards to the Trading portfolio the market risk monitoring is performed through models and parameters established by Brazilian Central Bank, such as VAR - a statistics measure that estimates the maximum potential loss in the portfolio value of the bank in normal market conditions within a defined time horizon, and the calculation of losses in the stress scenario (VAR stress) that determines the effects of extreme market conditions (either positive or negative about the portfolio amount of the Institution).

In regards to the Banking portfolio stress tests are performed, at least quarterly, and as determined by Brazilian Central Bank, ie:

- a) estimating the percentage of fluctuation in the market value of transactions not classified in the Trading portfolio, in relation to the Regulatory Shareholders Equity, and with usage of compatible shock with the 1st and the 99th percentiles of a historical changes in interest rates distribution, considering the maintenance period (holding period) of one year and an observation period of five years;
- b) estimating the amount of parallel shocks basis points in interest rates necessary to cause reductions in the market value of transactions not classified in the trading portfolio corresponding to 5% (five percent), 10% (ten percent) and 20% (twenty percent) of the Regulatory Shareholders Equity;
- c) Performing the test individually to each risk factor that contributes, at least, 5% of all exposures related to transactions not classified in the trading and, in an aggregated manner, for remaining operations.

In addition, monthly, sensitivity tests in the portfolios, giving a shock of +1% and -1% in the interest rate curves (pre, dollar coupon, Libor-dollar coupon, Libor-euro coupon, Libor-yen Libor-dollar and IPCA coupon).

Derivative financial instruments, consisting exclusively of swap operations, have their receivable or payable differential accounted in asset or liability accounts, adjusted to market value against the results.

According to Circular No. 3.082, dated of January 30, 2002, and Circular-Letter No. 3.026, dated of July 5, 2002 from Brazilian Central Bank, derivative financial instruments are evaluated by their market values, and the appreciation or depreciation record is accounted in the income.

Derivative instruments, consisting of swap operations, are in custody at BM&FBOVESPA.

We present below the asset and liability positions exposures and the amounts recorded in accounts for assets, liabilities and compensation, segregated by indexer categories, maturity dates, reference and accounting amounts, which counterparty are customers:

Sep 30, 2011

Fair value (carrying amount)

Index	Trading Location	National amount	Up to 90 days	Above 90 days	Total	Adjusted Cost
Asset Position: Dollar	BM&FBOVESPA	62.976	73.554	-	73.554	73.622
Liability Position: Interbank Deposit Rate - CDI	BM&FBOVESPA	62.976	65.372	-	65.372	65.372
Differential Receivable (payable)			(8.182)	-	(8.182)	(8.250)

The assessment of market value for derivative financial instruments is performed by discounting the future values into present value by the interest rate curves according to market methodology which is mainly based on data disclosed by BM&FBOVESPA.

10. LIQUIDITY RISK

Liquidity risk includes the funding risk and the product or market risk.

Funding liquidity risk is the uncertainty that the bank will be able to fulfill its funding needs or to compensate the mismatches in fees and maturities. Market liquidity risk is the uncertainty that the Bank will be unable to liquidate or compensate positions efficiently, ie at reasonable prices.

The understanding and monitoring of such risk are crucial, especially for BSMB can settle transactions in a timely and safe manner.

10.1. Liquidity Risk Management Process

The global Market and Liquidity Risk Management Policy is established by the Head Office approved by the Board, and are supported by three pillars: Money Gap Management, establishment of the contingency plan and additional resources for emergency liquidity. Its objective is to ensure the existence of norms, criteria and procedures that assure the Institution in regards to the establishment of the additional liquidity fund as well as the existence of a strategy and action plans for liquidity crisis situations. The policy and controls comply with the provisions established by Resolution No. 2.804 of the National Monetary Council.

This risk is controlled through proper planning over the cash flow needs, which can be monitored with the implementation of limits for mismatches in the cash flow, "*money gap*".

Money Gap measures the funding need within a certain period of time, which is, in the case of BSMB, one day, two days a week and one month, and is calculated based on cash flows.

To strengthen the control over the liquidity risk it has been established a fixation and control over the "minimum value for an additional liquidity" that corresponds to a position in government

securities that the Bank should maintain in its portfolio, free from any commitment. The minimum value is assessed based on the Money Gap and approved by the Head Office.

10.2. Control and Monitoring

The control and monitoring over the positions are held independently from the management area, Treasury Department. In the liquidity risk managing process, Back-Office department is responsible for providing the necessary information for managing and monitoring the fulfillment of established limits. Risk department is responsible for measuring the minimum level of liquidity, reviewing policy, norms, criteria and procedures and studies for new recommendations.

10.3. Internal communication

Market and liquidity risk department, regardless of business management, monitors fulfillment of limits and provides management reports daily, presenting the control of fixed rates positions in the trading portfolio, foreign exchange exposure, to business departments, Board and Head Office, as well as simulations future based on scenarios and periodic presentations to the Board, through Asset and Liability Committee.

11. OPERATIONAL RISK

BSMB has adopted the definition of operational risk from Basel Committee:

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

Therefore, the operational risk is related to losses originated from operational errors of any sort, which affects the profit of the Bank.

This definition includes legal risk associated to the unsuitability or deficiency in contracts signed by BSMB as well as the sanctions in order of unfulfilled of legal devices and the compensations by mischief to third parties resulting of BSMB activities

11.1. Operational Risk Management Process

Operational Risk Management is the subject to identify, evaluate, monitor, control and mitigate the operational risks events. It can be understood like cyclical procedure divided in separate steps in that each step addresses to a specific aspect for operational risk. Segmenting the cyclical procedure into phases with input and output criterias clearly defined, BSMB can determine which specific activities are necessary to manage the operational risk.

Operational risk Management should not be confused with the complete mitigation over all operational risks; the definition of all risks whom has been weighted that an organization is able to accept, in short words, the risk appetite, is essential for aligning the structure of controls inside of the organization.

The Operational Risk structure defined in BSMB is conducted by two independent and specific corporate areas: (i) Security Office responsible by Business Continuity Plan and Compliance Dept. responsible for consolidated management of operational risks events and internal controls management. These both tools (operational risks and internal controls) are aiming to improve the environment of controls and, consequently, disseminate operational risk culture and internal controls within BSMB.

11.2. Control and Monitoring

BSMB addresses the operational risk management within a process of continuous improvement, to monitor the business dynamic evolution and minimize the existence of gaps that could compromise the quality of management.

The Policy is driven by the following principles:

- Define the roles of the operational risk management for identification, monitoring, measuring the risks and controls and releasing operational risk report;
- To strengthen internal control environment through the widen spread of a global culture of operational risk;
- Enhance the compliance under the regulations which rule the operational risk management;
- Decrease the costs and the volatility of the profit with the operational risks occurrences prevention;
- Establish, in a regular basis, a line of report to the Board, in order to inform the relevant operational risks events.

The guidelines to quantify the impact inside of an operational risk event should follow a linear and simple approach for facilitating the integration in an only measure of risk. In this scenario, to measure the weight of severity of an event of operational risk it must calculate the impact versus the probability of occurrence versus the frequency of occurrence. The principles to measure the operational risk should include as follows:

- **Decomposing the operational risk:** Operational Risks in any product/business unit should be identified.
- **Measures of operational risk:** A structure of operational risk including the types of risk should be utilized for calculating the weight of operational risk across of all business units.
- **Measures based on probability:** A methodology based on the probability should be applied to allow the management estimates the probabilities of an event occur, considering as of catastrophic occurrences as of high frequency, with capital risk correlated.
- **Measures based on sensibility:** The business units should be capable to measure the sensibility of its positions regarding over each factor under operational risk.

11.3. Operational Risk Event Data Base

The main purpose to establish a database on operational risk is to assist the system for supporting a decision, storing different types of operational risk data in an only structure, facilitating any kind of analysis (quantitative and/or qualitative) which can be accomplished using all data available over operational risk.

The events of operational risk which can be direct/indirect losses and/or cost of opportunity are reviewed, analysed and monitored in order to improve the operational procedures and develop historical loss data.

11.4. Internal Communication

Operational Risk Management unit follows a continuous cycle that addresses the events presentation occurred in BSMB, reporting the mitigation actions taken, monitoring these actions and further analysis to determine the results.

The management reports produced by Operational Risk Management unit are targeted monthly and quarterly to the Board and Head Office and reported semi-annually in the Management Operational Risk Management Committee.

11.5. Business Continuity Management - BCM

BSMB, in order to be prepared to minimize the financial, operational, legal and regulatory impacts occasioned by the unavailability of physical and logical access, providing to its customers the essential products and services, as well as information required by official organizations and representatives abroad, has established a Business Continuity Plan (BCP), aiming to establish and deploy the means/mechanisms to protect the physical integrity of persons and to ensure the continuity of critical business in the Bank, compared to events/incidents that may generate interruptions/unavailabilities, such as, but not limited to: fire, explosion, bomb threat, strikes, social unrest, disruption of electricity supply and failure in critical systems or in BSMB's technology infrastructure and support.

The Plans focus and prioritize the actions and procedures against major risks to which the Institution is exposed, based on "Physical and Logical Risk Analysis (ARFL)" and in the "Business Impact Analysis (BIA)".

11.6. Management Process

The management process of Business Continuity Plans consists in the monitoring of all activities involving business continuity, since the establishment of policies, definition of methodologies, systems, etc, to assess the suitability of the Institution's Business Continuity Plans.

Development works, maintenance and improvements of BCPs are coordinated by Information Security Department and reported semiannually to the Board, through the Management Committee for Operational Risk.

12. CAPITAL MANAGEMENT

12.1. Required Regulatory Shareholders Equity (PRE)

The capital management process is performed in order to provide conditions for achieving the strategic goals of the institution, taking into consideration the economic and commercial environment in which it operates. This process aims to ensure that the institution maintains a strong capital base to support development activities and to cope with the risk, complying with the regulatory capital requirements.

Pursuant to Brazilian Central Bank regulation, financial institutions should maintain, permanently, capital (Shareholders Equity) compliant with the degree of risk of their asset structure, represented by Required Regulatory Shareholders Equity.

PRE is calculated using, at least, the sum of the following parcels:

$$PRE = P_{epr} + P_{jur} + P_{acs} + P_{com} + P_{cam} + P_{opr}$$

Credit Risk

Trading Market Risk

Operational Risk

The operational limit calculation is shown below:

Portions	Sep 30, 2011
Credit risk portion (Pepr)	134.739
Foreign exchange risk portion (Pcam)	-
Interest rate risk portion (Pjur)	501
Operational risk portion (Popr)	10.059
Required Regulatory Shareholders Equity (PRE)	145.299
Risk part of banking portfolio (Rban)	2.021
Regulatory Shareholders Equity Tier I and II	585.669
Risk Factor - 11% on (PR)	64.424
Basel ratio (% Risk Factor/ PRE)	44,34

PRE is determined by the sum of the total capital requirements of each one of the parcels, plus the additional PRE fixed in the Article 5 of the resolution which can be determined by Brazilian Central Bank and for the composition of the Calculation of Required Regulatory Shareholders Equity, BSMB considered the following factors:

PEPR: parcel related to weighted exposure by the weighting risk factor assigned;

PJUR: amount related to the risk of the transactions subject to interest rates fluctuations and classified in the trading book, according to Resolution No. 3.464, dated of June 26, 2007. It is comprised by PJUR 1, 2, 3 and 4.

PACS: it reflects the risk of the transactions subject to changes in stock price; It is not applicable to BSMB currently.

PCOM: it reflects the risk of the transactions subject to changes of commodities price; BSMB does not have any operations involving this parcel.

PCAM: it reflects the risk of exposure in gold, foreign currency and transactions subject to foreign exchange fluctuation; BSMB has not presented the amount corresponding to Pcam because it followed the instructions of Circular no. 3.389, Article1, Paragraph 1, in which: the exposures to gold, foreign currency and assets and liabilities subject to foreign exchange (EXP) equal or less than 0.05 (five hundredth) of the Shareholders Equity, defined in the Resolution No. 3.444, the amount of PCAM equals to zero.

POPR: parcel related to operational risk. BSMB adopted the methodology of the Basic Indicator Approach - BIA.

Additionally, BSMB also keeps enough Shareholders Equity to cope with the interest rate risk of transactions not included in the trading book (Banking portfolio).

BSMB disposes of a process to assess the suitability of the Shareholders Equity, which aims to measure the capital need to support all inherent risks to the business, whether financial or nonfinancial, in the course of its activities, to comply with the Institution's strategic interests.

Detailed information related to BSMB's shareholders Equity, from the perspective of financial and economic consolidated can be find below.

12.2. Details of Required Regulatory Shareholders Equity

The Shareholders Equity is calculated from the sum of the Shareholders Equity Tier I and Shareholders Equity Tier II, subtracting the deductions provided in the Articles 3, 4 and 5 of the Resolution.

Following the guidelines of Resolution 3.444, Shareholders Equity Tier I is composed by the account balances of the Net Equity added to the expenses and revenues accounts, deducted the balances of permanent deferred assets and gains and losses not materialized due to the market adjustment value in the securities classified as "securities available for sale" and derivative financial instruments used to hedge cash flow.

Shareholders Equity Tier II is composed by subordinated debt instruments added to the balance of gains and losses not materialized due to the market adjustment value in the securities classified as "securities available for sale" and derivative financial instruments used to hedge cash flow.

Analytical composition of the Shareholders Equity:

Tier I	Sep 30, 2011
Net Equity	512.400
(-) Deferred Permanent Asset	(1.217)
(-) Adjustment to Fair Value securities and derivatives	(16)
Total Tier I	511.167
Tier II	
Subordinates Loan Instruments	74.486
Adjustment to Fair Value securities and derivatives	16
Total Tier II	585.669

13. SUBORDINATED DEBT BY MATURITY

The Bank obtained a loan in the amount US\$40 million from the Head Office for a period of 15 years, which was authorized by Brazilian Central Bank on November 10, 2006, to be considered as subordinated debt, being part of Tier II of the institution's Shareholders Equity, pursuant to CMN Resolution no. 2.837/2001.

14. FINAL CONSIDERATIONS

The institution monitors permanently the Group, always in compliance with the capital limits required by the regulators. This measure aims to improve continuously the rules for risk management over the capital quality and liquidity of the Institution.

BSMB monitors actively national and international regulations, as well as the associations' discussions on the subject, in order to be prepared to deal with new measures to its current level of capitalization.

All information disclosed in this present report has been duly approved by the Board of the Institution.