



## MANAGEMENT REPORT – 1<sup>ST</sup> HALF OF 2009

We present the Management Report and the individual and consolidated financial statements of BANESTES S.A. - Banco do Estado do Espírito Santo, for the first half of 2009, in accordance with standards set forth by the National Monetary Council, Brazilian Securities and Exchange Commission, Central Bank of Brazil and Superintendence of Private Insurance.

### 1 – SUMMARY OF THE SIX-MONTH PERIOD

BANESTES' consolidated net income in the first half of 2009 was R\$74.43 million, an amount similar to the results of same period in 2008. A favorable result, when considering all the adversities the Bank has faced in the period, such as the effects of the world crisis and the process regarding the acquisition of the Bank's controlling interest by Banco do Brasil S.A.

Our lending portfolio, including Lease, Advances on Exchange Contracts and Other Receivables from Lending Operations, increased 76.95% and amount to R\$3.26 billion by the end of the six-month period.

Shareholders' equity amounts to R\$623.92 million in the period, 24.43% higher than the 1st half of 2008. The return on equity was 14.84%, calculated by the Net Income as of June 30, 2009 on Shareholders' equity as of 06/30/2008.

In this period the solidity and slow improvement of the Bank's performance was tested and, according to the analysis of the magazine "Exame – Anuário Melhores e Maiores", 2009 edition, BANESTES was high rated among Brazilian financial institutions; as the 36<sup>th</sup> company within a list of the 50 largest banks in the country. Also, the Bank was recognized as the 9<sup>th</sup> bank in regard to number of clients and savings deposits, 11<sup>th</sup> among the banks with the largest number of branches and demand deposits; 14<sup>th</sup> in regard to rural credit and issue of credit cards, and 18<sup>th</sup> in regard to personal credit and time deposits.

### 2 - HIGHLIGHTS

#### 2.1 - Banescard – Pioneer in Brazil

Launched by BANESTES in March 2008 the first credit and debit own-branded card from a commercial bank in the country has now completed one year. In June 2009, the number of establishments accepting Banescard is expected to be of about 16,800. In this period, the debit and credit card of the Bank became the second largest own-branded card in operation in the State of Espírito Santo. Its operations amount to R\$17.21 million in portfolio, with an average of 15,440 transactions/day, by the end of the six-month period. To achieve this result, we highlight some actions implemented by the Bank, such as the introduction of the card "Banescard – Meu Salário" with the issue of 80 thousand cards, the search of new establishments for partnership, and the promotional campaign "Compra Premiada Banescard", which monthly distributes prizes among clients that use the credit and debit card in their financial transactions.

BANESCARD, which has no membership or annual fees, has the potential to bring opportunities of new businesses with the clients' portfolio, and also counts with the large network of BANESTES' services, present in all municipalities of the State of Espírito Santo, and the great acceptance from clients and commercial establishments.

#### 2.2 BANESTES Financeira

In the 1<sup>st</sup> half of 2009, not-bank-account-holder clients were target through actions to expand the network of establishments that operate with the products of Financing of Assets, and Personal Credit. Actions regarding the collection of default amounts were also implemented, which generated a



significant increase in the number of agreements renegotiated and more control over default levels of the establishments registered.

The result of those actions was the increase by 575.73% in the number of contracts amounting to 72,215 contracts in the six-month period. As for the amount contracted, the Bank moved from R\$4.99 million in the 1<sup>st</sup> half of 2008 to R\$27.12 million in the same period of 2009. The volume in the Bank's portfolio increased by 251.66%, from R\$15.08 million on 06/30/2008 to R\$53.03 million on 06/30/2009.

### **2.3- Banes Auto**

The product, originally launched in May 2009, was originated from the CDC Vehicles, which was totally reformulated to offer better interest rates, longer payment terms, agility and convenience in the transactions, and the possibility of payment through direct charge to BANESTES' accounts or payment forms. This product counts with a partnership with 36 vehicle dealers and authorized dealers in the State of Espírito Santo. The balance for the six-month period amounts to R\$630,60 thousand in financing.

### **2.4 – Personnel Management**

In the first half of 2009 BANESTES hired 149 new employees through the civil service examination of 2008. This action, in addition to renovate staff, provides personnel to supply the demands of the Bank, and the replacement of retired personnel.

BANESTES' staff includes 2,178 employees, 556 trainees and 178 apprentices, in the six-month period. The investment in employees' training amounted to R\$413.59 thousand, invested in the conduction of 128 events with 3,224 employees participating in 1,185 hours/class.

Internally, BANESTES has implemented important institutional projects aiming business sustainability such as: "Querer Aprender" a project that aims to qualify and promote the personal and professional development of the Bank's employees; "Carreira e Sucessão" that aims to train talented employees to assume strategic positions; and "Programa Socioeconômico" that intends to make the participant employees be aware of, plan, and prevent problems on family budget.

### **2.5 - Beyond Espírito Santo**

Aligned with BANESTES' Strategic Planning for 2008-2010, BANESTES started 2009 continuing expanding and improving its bank service network. In the first half of the year, the Bank opened two new branches outside the State of Espírito Santo. One in Nanuque, State of Minas Gerais, and another in Teixeira de Freitas, State of Bahia.

These cities were chosen for several reasons. Besides being located near and having affinity for Espírito Santo, these cities offer great market opportunities. Additionally, the cities are located closer to Vitória (capital of Espírito Santo) than to the capitals of their States.

## **3 – ECONOMIC SCENARIO**

The world economic scenario in the first months of 2009 was characterized by the worsening of economy slowdown and contraction. However, in the 2nd quarter of year, important indicators reversed their recent trend and showed increase in the price of commodities and in stock market indexes. In regard to economic activity, most recent results suggest a slower pace of contraction in world economy, as already observed in the U.S., where indications of stability in real estate market, family consumption, and advances in the adjustments to inventory cycles.

Similarly to what happened in world economy in the last months, Brazilian economy has been through a process of economic recovery, influenced by the anti-crisis measures implemented by government, such as tax relief in several industries. Also the improvement in credit conditions, consumers' and entrepreneurs' trust also resulted in a slower pace of economy contraction and even growth of some industries, such as the automotive industry.

The improvement in credit conditions can be verified by the slow recovery of economic activity, with credit transactions of the financial system maintaining the growth trend. According to data made available by the Central Bank of Brazil, the total available credit amounted R\$1,259 billion in May, growing 0.80% in the month, and 20.50% in twelve months. The result, in comparison with GDP, achieved 43.00% in comparison with 36.10% calculated in May of the prior year. Public banks ratified the increase in its representativeness in total available credit and are responsible for 37.80% in the period.

Also according to Central Bank of Brazil's data, transactions with free funds corresponded to 70.40% of total credit, amounting to R\$886.50 billion, with increases of 0.90% in the month and 18.80% in comparison with May 2008. Transactions with individuals amount to a balance of R\$426.10 million and increase of 2.40% in the month; however, loans granted to legal entities decreased 0.50% in the month, amounting to R\$460 billion. Transactions with earmarked funds amounted to R\$373 billion in May.

According to FEBRABAN (Brazilian Federation of Bank Associations), the expectation for 2009 is of 16.10% growth in total credit transactions, with 15.40% growth estimated for free funds, and 17.70% growth estimated for earmarked funds. As for credit transactions for individuals the expectation is of 15.30% growth, with an increase of 16.70% in personal credit including payroll loans, and 14.30% in vehicles financing. Credit transactions for legal entities are expected to grow 15.70%. Default estimate for the year is 5.60%. As for macroeconomic indexes estimates for 2009 include IPCA (Extended Consumer Price Index) of 4.3%, exchange rate of about R\$2.01, and Selic (Central Bank overnight rate) at 8.75% by the end of the year.

In the State of Espírito Santo, lending operations reached R\$9.63 billion in May 2009, up 27.04% in comparison with the same period in 2008. BANESTES' volume of credit operations increased 76.71% which amounts to R\$3.40 billion, and corresponds to a share of 35.31 p.p. in the market.

For the second half of 2009, Espírito Santo's economy should follow the country's trend. The drop in US dollar rates, the increase in credit supply and demand must guide the State's economy.

## **4 - BANESTES FINANCIAL SYSTEM PERFORMANCE**

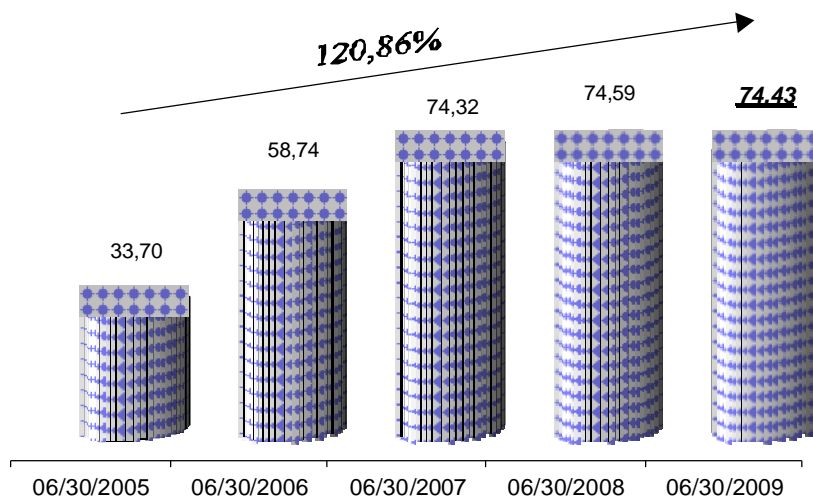
In the first half of 2009, in addition to the positive result that points to its solidity and growing trend, BANESTES Financial System has established important strategic actions that will foster better results in a recovering economic and financial environment.

### **4.1 – Economic and Financial Performance**

#### **4.1.1 – Net income**

The consolidated net income of BANESTES Financial System in the first half of 2009 was R\$74.43 million, a result similar to the one in the same period of 2008. However, in comparison with the same period of 2005, the increase was of 120.86%.

### Net Income – R\$ Million



#### 4.1.2 – Financial Income

In the 1<sup>st</sup> half of the year, BANESTES Financial System's Gross Income amounts to R\$187.40 million, up 17.84% in comparison with the R\$159.03 million of 2008.

### Financial Income – R\$ Million



Note: In compliance with Law No. 11.638/07 and for comparative purposes Lease Expenses were reclassified in the Statement of Income with a deduction of Lease Revenues in the six-month periods from 2005 to 2008.

Treasury revenues decreased 5.97%, amounting to R\$242.72 million by the end of the 1<sup>st</sup> half of the year in comparison with R\$258.13 million of the first half of 2008. They correspond to 41.75% of the total financial revenues of the six-month period that amounts to R\$581.42 million.

Financial income from lending operations amounts to R\$308.30 million, up 60.50% in comparison with the R\$192.09 million of the same period of prior year. Loans and financing, up 69.87% and 145.51%,



respectively, stand out. Revenues from Advances on Accounts Receivable increased 26.22%, mainly for legal entities that increased 31.40%.

In financing, the following stand out: BANESTES Financeira – Bens e Serviços, FINAME, through the agreement signed with BNDES (National Bank for Social and Economic Development), and Financing of Assets – Individual, which significantly increased 429.66%, 147.40% and 61.24%, respectively.

The products that stand out within loans were BANESTES Financeira – Personal credit, Working Capital, Overdraft Protection, and Payroll loans, increased 658.14%, 65.79%, 65.50% and 21.85%, respectively. Revenues from the products Banescard and Credit Granting were responsible for 2.24% and 20.51% of total revenues from loans, respectively. We point out that the last two products were launched in the 2nd half of 2008 and the income earned was significant, in relation to the total revenues from loans.

Financial expenses increased 18.06% in the six-month period, from R\$333.73 million in the 1<sup>st</sup> half of 2008 to R\$394.01 million.

Expenses on Money Market funding amount to R\$321.94, up 7.91% in comparison with R\$298.35 million in the 1<sup>st</sup> half of 2008.

In the current period, affected by the expansion of the Bank's portfolio and the increase in default observed in the financial market, the expenses on Allowance for Losses on Lending Operations, Lease and Other Receivables from Lending Operations amount to R\$67.35 million, in comparison with R\$33.15 million recognized in the same period of 2008.

#### **4.1.3 – Other Operating Revenues (Expenses)**

Other operating revenues and expenses amount to R\$71.67 million by the end of the six-month period, a decrease of 10.56%, or R\$8.46 million, in comparison with the previous R\$80.13 million.

Revenues from services amount to R\$79.78 million in the six-month period. From that total, revenues from investment fund management generated revenues amounting to R\$13.97 million in the period, which represent 17.51% of total revenues from services, while revenues from collections amount to R\$9.85 million, representing 12.35%.

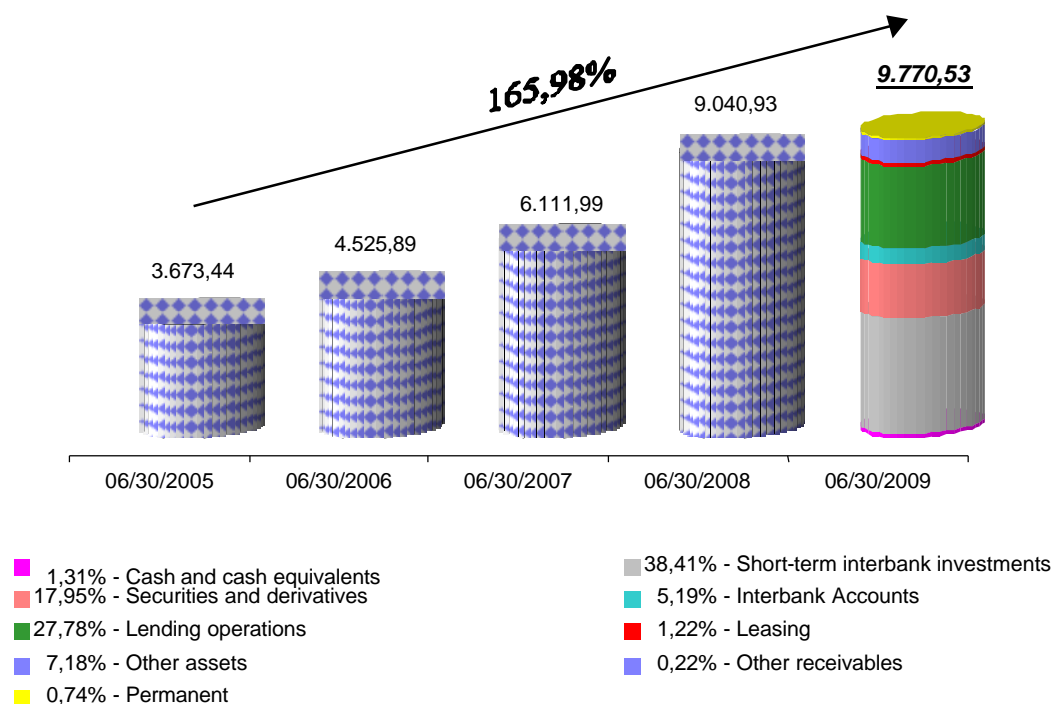
Expenses on Personnel amount to R\$84.99 million, a reduction of 6.03% in comparison with the same period of 2008. Other Administrative expenses increased 9.75% and amount to R\$79.36 million in the current quarter, due to the increase in the Bank's operating activities.

## **4.2 - Assets Performance**

### **4.2.1 - Assets**

Total Assets, as of June 30, 2009, amount to R\$9.77 billion, up 8.07% in comparison with R\$9.04 billion in the same period of 2008, and 165.98% in comparison with 2005. This result was due to the increase in treasury revenues and the expansion of the lending portfolio, mainly through the products of loans: Payroll loans, Working Capital, Overdraft Protection and Credit Granting; Financing: Financing of Assets – Individuals and Legal Entities, BANESTES Financeira – Financing of assets and Industrial Financings; and Rural Financing.

**Total Assets and their breakdown - R\$ Million**



Note: In compliance with Law No. 11.638/07 and for comparative purposes Guaranteed Residual Value classified under Current and Long-term Liabilities was reclassified to Lease in the six-month periods from 2005 to 2008, changing Total Assets and Total Liabilities.

#### 4.2.1.1 - Total Funds Applied

As of June 30, 2009, the balance of total Funds Applied, including Short-term Interbank Investments, Marketable Securities, and Lending Portfolio amount to R\$8.37 billion, up 12.91% in comparison with June 30, 2008.

#### 4.2.1.2 – Marketable Securities

Marketable Securities amount to R\$1.75 billion in the current six-month period, up 42.28% in comparison with the same period of 2008, amounting to R\$1.23 billion. R\$987.21 million of which correspond to their own portfolio, R\$681.97 million Linked to Repurchase Agreements, and the remaining Linked to Guarantees and Derivatives.

From the total amount of R\$1.75 billion of this caption, R\$200.87 million were classified as Trading Securities, and R\$66.05 million as Available-for-sale Securities. This classification was based on cash flow analysis that checked BANESTES' capacity to held securities under the caption Held-to-maturity Securities in the amount of R\$1.49 billion.

#### 4.2.1.3 – Lending Portfolio

The total Lending Portfolio including the balance of Lease, Advances on Exchange Contracts and Other Receivables from Lending Operations, increased 79.95% and amounted to R\$3.26 billion by the end of the 1<sup>st</sup> half of the year, of which 43.97% refer to Legal Entities and 56.03% to Individuals.

We point out that the increase in our portfolio was mostly the result of our participation in the sector of payroll loan acquisition. As of June 30, 2009, the volume of funds invested in this product amount to

R\$718.80 million, equivalent to 39.32% of the individual credit portfolio, and 22.03% of the Bank's total credit portfolio.

Loans is the most significant of these funds, representing 63.74% of the total funds applied and volume of R\$2.08 billion. Rural Financing and Advances on Exchange Contracts represent 10.13% and 7.89%, respectively, followed by Financing of Assets, with 7.57%.

The products that stood out in the period, in comparison with the 1<sup>st</sup> half of 2008, were:

◆ In Loans:

- BANESTES Financeira – Personal Credit increased 335.37%, amounting to R\$9.26 million.
- Renegotiation of Debts – transactions with individuals amount to R\$15.37 million, up 57.97%. As for transactions with legal entities, they amount to R\$24.44 million, up 368.68%.
- Payroll loans – these amount to R\$330.58 million, up 29.53%.
- Working capital – its balance amount to R\$343.24 million, up 72.10%.
- Overdraft protection – transactions with legal entities increased 33.51%, amounting to a balance of R\$317.86 million.

◆ In Financing:

- Industrial financing – the balance with legal entities increased 185.29%, amounting to R\$126.89 million by the end of the period.
- Financing of assets – transactions with individuals increased 77.80%, amounting to R\$40.31 million by the end of the period. As for transactions with legal entities, they amount to R\$6.12 million, up 100.69% in the period.
- Financing of assets and services: BANESTES Financeira – the balance of its transactions amount to R\$43.76 million, up 237.76% in the six-month period.
- Foreign currency financing – the balance amount to R\$7.13 million, which corresponds to an increase of 851.40%.

◆ In Other Special Financing:

- Rural and Agroindustrial Financing - increased 89.71%, amounting to R\$330.67 million.
- Lease – the balance amounts to R\$125.42 million, up 30.18% by the end of the six-month period.
- Advances on Exchange Contracts – transactions amount to R\$257.45 million, up 27.72%.

#### 4.2.1.4 – Risk Levels

The balance of the Allowance for Losses on Lending Operations, Lease and Other Receivables from Lending Operations amount to R\$165.24 million by the end of the six-month period.

In regard to risk level rating in the first half of the year, 88.30% of BANESTES' lending operations had their risk levels rated as AA and B. 54.50% of these operations were rated AA, 18.50% were rated A and 15.30% were rated B. Only 11.70% of lending operations were rated C and H.

#### **4.2.1.5 – Special Products**

##### **Microcredit**

From its creation to the 1<sup>st</sup> half of 2009, BANESTES Microcredit Program had 8.387 clients registered and funds totaling R\$13.98 million were invested. Accordingly 1,618 clients with funds amounting to R\$3.90 million participated in the program. This credit facility aims to increase the economy's production capacity, generate jobs and income.

##### **Rural Credit**

Banest's investments in the rural area reinforce its role as an agent of public policies and partner of Espírito Santo's rural producer. In line with the state government's policy of developing the interior of Espírito Santo, the Bank plays an important role in improving the production, productivity and competitiveness of Espírito Santo's agribusiness.

In the first half of 2009, funds of R\$110.40 million were invested, benefiting 3,944 rural producers. Considering the period from January 2003 to June 2009, R\$689.90 million was invested, covering more than 39,661 rural producers.

##### **Nossocrédito**

A program which is part of a set of public job and income generation and social inclusion policies, Nossocrédito Banestes has been fulfilling its social purpose. In the 1<sup>st</sup> half of the year, the program invested funds amounting to R\$7.10 million with benefits to 1,956 small entrepreneurs. Since its implementation, on October 2, 2003, 23,303 transactions were analyzed and approved by the Municipal Credit Committee, totaling R\$72.40 million, with an average of R\$3.10 thousand per realized transaction.

##### **Industrial Credit**

Through its industrial credit area, together with BNDES' credit policy, BANESTES achieved significant results in 2008, with major possibilities of doing businesses in the future.

Therefore, financing for the industry, commerce and services supported by BNDES through BANESTES totaled R\$130.31 million at the end of the 1<sup>st</sup> half of 2009, in comparison to R\$111.71 million in the 2<sup>nd</sup> half of 2008. That means an increase of 16.65% in the portfolio.

##### **Real estate credit**

In the first half of 2009, BANESTES pursued its policy for encouraging the early settlement of contracts with or without the coverage of Salary Variation Offsetting Fund (FCVS). In the period the Bank settled 15 contracts in the total amount of R\$3.47 million, and established a policy on the recovery of credits that resulted in the recovery of R\$395.75 in 16 contracts. Additionally, a provision for 100% of the disallowed FCVS related credits was accrued, which resulted in a set-up provision of R\$3.49 million.

During the year, the Bank expects to continue this work which comprises:

- Negotiate credits granted through court decisions of about R\$1.00 million.
- Approve FCVS contracts with Caixa Econômica Federal, in order to minimize or reverse the disallowance of contracts, with a projected credit recovery in the approximate amount of R\$1.00 million.
- Reverse the amounts disallowed by the STN (Brazilian Treasury Department) referring to novation contracts in the approximate amount of R\$1.20 million; and
- Securitize FCVS credits in approximately 526 contracts, with a projected receipt of R\$40.00 million in CVS bonds and R\$18.00 million in cash.

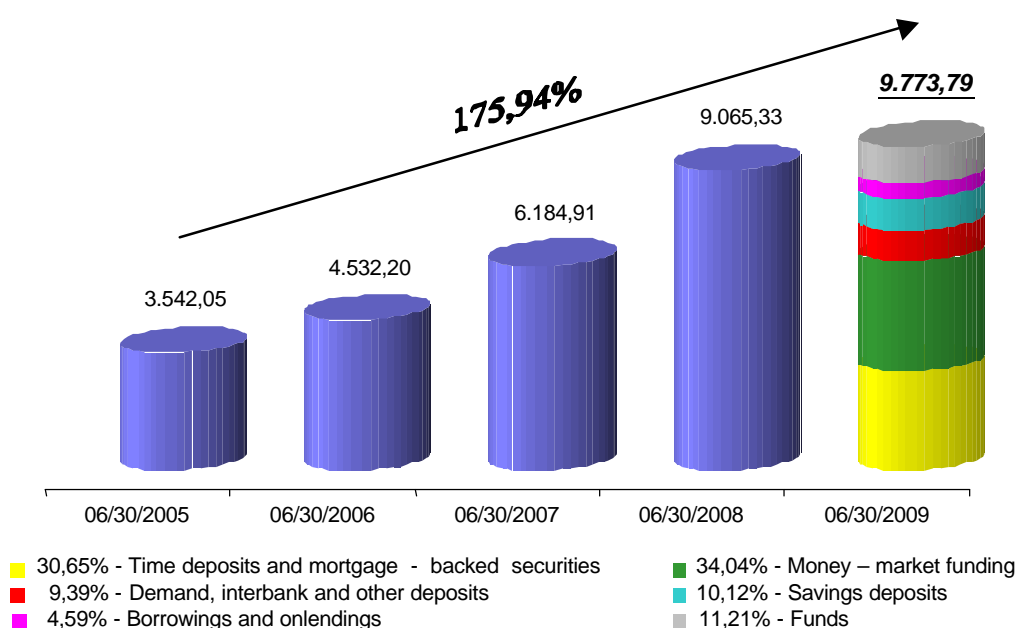
## 4.2.2 - Liabilities

### 4.2.2.1 – Funds raised and managed by BANESTES

In the current period, funds raised and managed by BANESTES totaled R\$9.77 billion, up 7.82% compared with the same period in 2008. This increase is due to the growth in fund raising through Time Deposits and Mortgage Bills, which rose 12.90%, or R\$342.24 million, in the six-month period. Additionally, there was an increase of 34.73% in Loans and Domestic Onlendings - Official Institutions and of 9.92% in Savings Deposits.

Third-party funds totaled in the period R\$1.10 billion, up 11.23% compared with the R\$988.95 million reported in the same period of 2008.

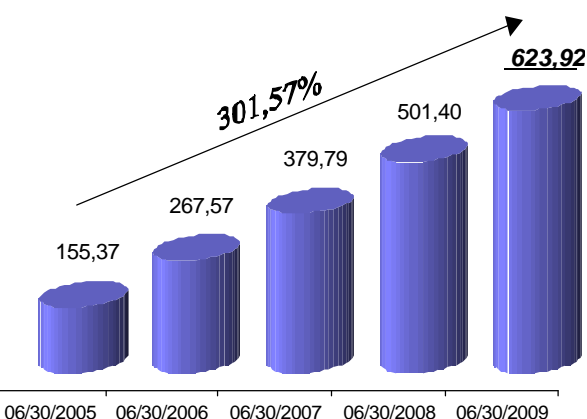
**Raised/Managed Funds and their Breakdown - R\$ Million**



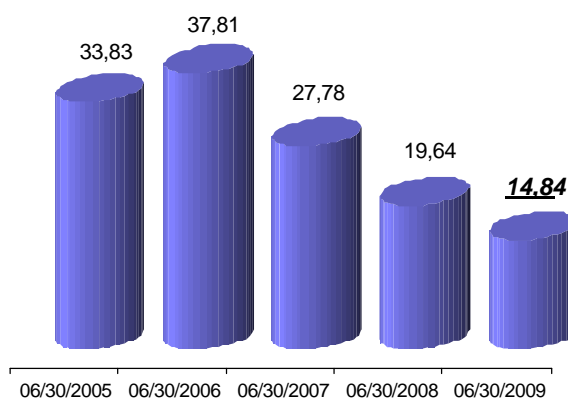
### 4.2.3 – Shareholders' Equity / Return on Equity

BANESTES' equity totaled R\$623.92 million in the first half of 2009, up 24.43% in relation to the same period in 2008, and up 301.57% when compared with 2005. Return on equity, calculated as the ratio between the net income reported in the first half of 2009 and shareholders' equity as of June 30, 2008, totaled 14.84% in the period.

**Shareholders' equity - R\$ Million**



**Return on equity - %**



#### 4.2.4 - Indicators

The table below shows a summary of our main indicators, comparing the results of the period from 06/30/2005 to 06/30/2009. We point out the performance of the Lending Portfolio that has been constantly increasing, and of the Shareholders' Equity with a slow but solid growth. Additionally, we highlight net income results which, even in the environment of a global crisis, had a satisfactory performance, remaining virtually unchanged in comparison with the same period of 2008.

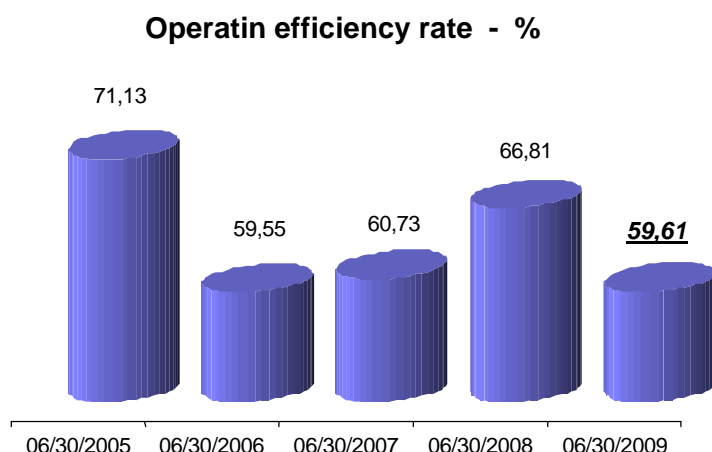
COMPARATIVE TABLE OF BANESTES FINANCIAL SYSTEM – In R\$ Million					
INDICATORS	06/30/2005	06/30/2006	06/30/2007	06/30/2008	06/30/2009
Net income	33.7	58.74	74.32	74.59	74.43
Shareholders' equity	155.37	267.57	379.79	501.4	623.92
Funds raised and managed	3,542.05	4,532.20	6,184.91	9,065.33	9,773.79
Total Assets	3,673.44	4,525.89	6,111.99	9,040.93	9,770.53
Lending Portfolio (1)	808.43	970.9	1,369.94	1,714.18	3,097.42
Capital adequacy - %	17.2	22.19	19.88	19.78	(*) 14.90
Return on equity - %	33.83	37.81	27.78	19.64	14.84
Operating Efficiency - %	71.13	59.55	60.73	66.81	59.61

(1) Lending Portfolio including Allowance for Losses on Lending Operations, Lease, and Other Receivables from Lending Operations.

(\*) This refers to Capital adequacy of Basel Accord II, according to requirements of the Central Bank of Brazil.

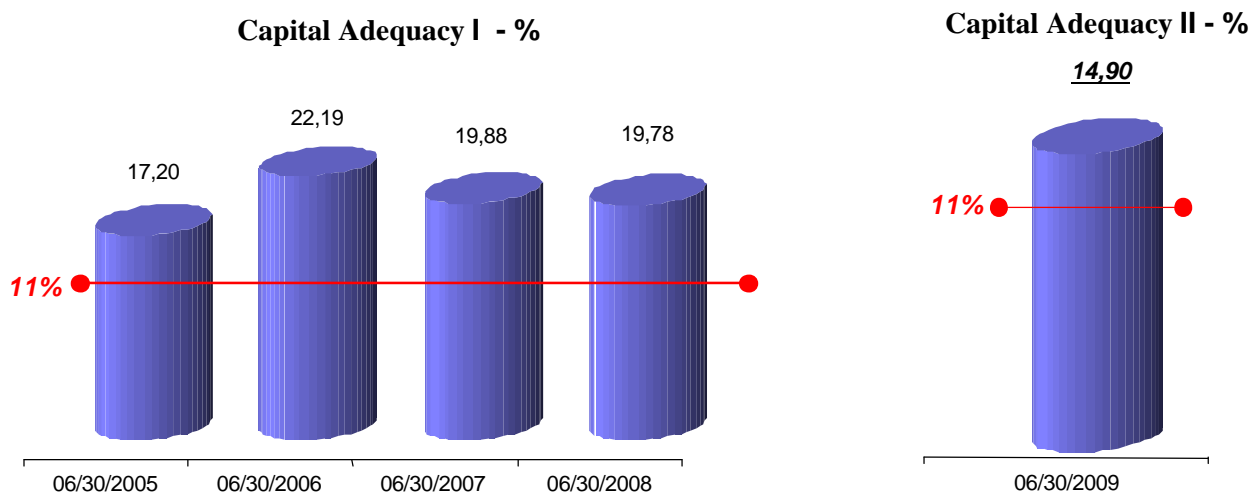
##### 4.2.4.1 Operating Efficiency

The lower the index, the higher the company's efficiency. In the current six-month period BANESTES Financial System's Operating Efficiency Index was 59.61%, a significant improvement of 7,20 p.p. compared with the 1st half of 2008, and 11.52 p.p. on the index of the same period of 2005.



#### 4.2.4.2 – Capital Adequacy

This indicator shows that BANESTES has been within market patterns and balances profitability and quality of its assets. In compliance with the requirements of the Central Bank of Brazil, BANESTES already uses the Capital adequacy of Basel Accord II, different from the previous one, given that it also evaluates the Bank's operational risk, besides measuring credit and market risks. Accordingly, in the six-month period ended June 30, 2009 this ratio reached 14.90% exceeding the minimum percentage of 11% required by the Central Bank of Brazil.



## 5 - SERVICE NETWORK

BANESTES is present in the 78 municipalities, covering 100% of Espírito Santo State. Our services are rendered using a network of 128 branches, three of which are located outside the State of Espírito Santo. In addition, it provides its clients with 27 banking units (PAB), 229 automatic teller machines (PAE) and 476 non-banking correspondents (COB/COA), totaling, in June 2009, a network of 860 service stations. Through its non-banking correspondents, the Bank offers a range of bank transactions, including entering into personal loan agreements automatically.

In the 1st half of 2009, electronic transactions (TEF) amounted to 10.77 million, accounting for 72.62% of total transactions made by the Bank, 3.08 p.p. above the same period of 2008.

With the purpose of continuing the improvement in the service to clients, several infrastructure improvements were made in the Bank's units and adjustments to the automatic teller machines.

Accordingly, 15 ATMs and 7 CDs were acquired in the total amount of R\$533.69 thousand.

## 6 – TECHNOLOGY AND MANAGEMENT

### 6.1 - Information Technology

In the current six-month period, BANESTES made investments of approximately R\$3.78 million, with main focus on the expansion of processing capacity and updating of technology infrastructure, in order to support the creation of new products and improve the performance of its systems. In the period, the main focus were investments in the acquisition of SUN servers, Windows systems, bidding procedures, acquisition of equipment and internet protocol telephony, and others.

Since the 2nd half of 2008, BANESTES – the first bank in the country to use this technology - conducts bank transactions using the technology resources of Digital TV. This access technology has been called HandBank, as it allows clients to conduct transactions through remote control.

## 6.2 – Corporate Governance

BANESTES has been improving its management system day by day, aligning its policies and strategies with corporate governance best practices. Accordingly, the following governance practices were adopted:

- The designation of the Bank's president as the link between governance and management aligned with the Board of Directors and establishing, along with the Management Panel, the actions needed to meet the strategic goals of the Bank.
- The setup of Committees to assist management in doing its businesses and making decision-making more transparent, among which Credit Analysis, Technology, Cost Cutting and Expense Reduction, Tax Planning, Discipline, Money Laundering Prevention, Security, Products and Services, Sponsorship Analysis, Market and Operational Risks.
- Maintaining an Ombudsman office to operate as a communication channel between the Bank, employees, clients and users of the Bank's products in order to mediate disputes and offer fast and adequate answers according to the needs of the public.

We highlight the following recent actions: The change in the membership of the Board of Directors, with the inclusion of two independent members; the creation of an investor relations department and the launching of the Investor Relations site, available as from June 2009, ensuring transparency and equity in the disclosure of the Bank's data and information.

## 6.3 - Risk Management

BANESTES is constantly improving risk management in order to achieve an integrated management of the main financial risks, allowing purposes to be fulfilled at an acceptable level of risk exposure. This does not affect the Bank's good business performance, with a more efficient capital allocation so as to optimize the *stakeholders'* capital achieving the best risk/return ratio.

By means of its risk and internal control management and specific units to manage and assess Credit, Market, Liquidity, and Operational Risks, the Bank has been developing a large project to spread the culture of internal control and risk prevention. This project includes training and talks to the Bank's staff. Additionally, the internal communication channels are used in order to disclose the risk management strategy, as well as preventive and recovery measures in case of interruption of operations, to guarantee the Bank's capacity to continue its activities.

The adoption of these measures reinforces the Bank's commitment to risk management's best practices available in the market, and to compliance with the new Basel Accord requirements - BIS II, and the Central Bank of Brazil's standards.

## 6.4 – Strategic Management Processes

In BANESTES, the control over strategic management processes is a commitment of the Bank. Accordingly, the Bank in partnership with the management of marketing, planning, and similar areas have implemented in the 1<sup>st</sup> half of the year a management tool named "Branches Portfolio". This tool makes available in a single electronic environment the main information on the Bank's branches, in order to assist the management group in making fast and accurate decisions.

Still in this period, through its marketing management, the Bank has promoted a large review of the Bank's sponsorship policy, in order to offer more transparency and objectivity in sponsorship procedures.

## 6.5 - Business Sustainability and Social Responsibility

BANESTES' actions in the social area show its commitment with the well-being and education of the citizens of the State of Espírito Santo. The Bank has focused on actions that reinforce the cultural identity of Espírito Santo, bringing value to the several cultural activities of the many municipalities of the State. Partnerships were made with social institutions that invest in educational, cultural and sport projects aimed to children and youngsters in social risk.

In this period, the Bank has continued to support to major projects, such as: Espírito Santo's Association against Children's Cancer - ACACCI, Community Action of Espírito Santo – ACES, Women's Association of Education and Fight against Cancer - AFECC, Citizen Support Center – CAC, Committee of Entities to Fight Poverty and Support Life – COEP, Brazilian Association of Toy Manufacturers' Foundation - ABRINQ, Junior Achievement Association of the State of Espírito Santo – AJAES and Social Masses. Up to June of this year, approximately R\$53.42 thousand were invested in these partnerships.

Besides these partnerships, BANESTES supports social and public policies of the State of Espírito Santo and since February is promoting the donation of personal computers to several municipalities in the State. Accordingly, up to June 2009, 586 computers were donated to 48 municipalities in order to reduce the citizens' lack of access to computers with the implementation of informatics rooms in low-income communities.

## 7 - RATINGS AND RECOGNITION

The company Lfrating rated Boneset's credit risk as **A** – (in Brazilian currency) using the accounting data of 2007, which shows an advance in aspects related to support, management, strategy and financial solidity.

An effect of this increased quality has been the prizes and recognition by various specialized publications that evaluate corporate performance. We highlight the following:

- 1<sup>st</sup> place among Public Banks – the one that had the highest growth in credit operations in 2008 – according to “Revista Conjuntura Econômica/FGV”, June 2009 edition.
- 4<sup>th</sup> place among Public Banks – in assets growth in 2008 – according to “Revista Conjuntura Econômica/FGV”, June 2009 edition.
- 3<sup>rd</sup> place among Public Banks – with the highest return on equity in 2008 – according to “Revista Conjuntura Econômica/FGV”, June 2009 edition.
- 27<sup>th</sup> place among the 100 Biggest Brazilian Financial Conglomerates – according to “Revista Conjuntura Econômica/FGV”, June 2009 edition.
- 1<sup>st</sup> place in the Efinance Award 2009 – category Risk Management - according to "Revista Executivos Financeiros".
- 6<sup>th</sup> place among the 10 Small Brazilian Banks (with less than R\$100 billion in assets) that had their shares prices increased in 2009 in North and Latin America – according to “Consultoria Econômica”, a study conducted from 01/2009 to 04/2009 and disclosed on 05/05/2009 on the website: [g1.globo.com](http://g1.globo.com).
- 3<sup>rd</sup> place among the 50 largest banks in the country – according to “Revista Exame/Anuário Melhores e Maiores”, 2009 edition.
- 9<sup>th</sup> place among the Banks leaders in number of clients and savings deposits - according to "Revista Exame/Anuário Melhores e Maiores", 2009 edition.

- 11<sup>th</sup> place among the Banks leaders in number of branches and demand deposits - according to “Revista Exame/Anuário Melhores e Maiores”, 2009 edition.
- 14<sup>th</sup> place among the Banks leaders in rural credit and issue of credit cards - according to “Revista Exame/Anuário Melhores e Maiores”, 2009 edition.
- 18<sup>th</sup> place among the Banks leaders in personal credit and time deposits - according to « Revista Exame/Anuário Melhores e Maiores”, 2009 edition.

## **8 - EXPECTATIONS FOR THE SECOND HALF OF 2009**

### **Banescard - Own-branded Card**

Banescard, the first own-branded credit and debit card from a bank in the country, is already accepted in over 16,800 thousand establishments within the State of Espírito Santo. By the end of 2009, this number is expected to reach 22 thousand registered establishments.

In order to achieve this goal the following actions are planned:

- Launch of “Banescard INSS” with an estimate of approximately 100 thousand cards. This refers to the inclusion of Banescard brand in the cards issued to INSS (National Institute of Social Security) pensioners, so that they can make purchases in registered establishments.
- Expand Banescard to users that are not clients of the bank.
- Establish partnerships with large retail stores in the State of Espírito Santo, with a projected increase of 6.5 million in the amount of transactions made.
- Operate Banescard in other Brazilian states bordering Espírito Santo, which are Minas Gerais, Bahia and Rio de Janeiro. This will be made through the register of some retail store chains acting in all those states.

### **Banes Auto**

Started in May 2009, this product is a promising bet of the Bank to boost business in the market. It is expected to close 2009 with financings amounting to R\$1.00 million. To achieve that the Bank plans actions such as the expansion of partnerships with car dealers in the State, with an expectation of reaching 60 service centers and availability of its operations for the Bank’s branches network. Additionally, an external communication channel (0800) and internal and external campaigns for the disclosure of the product and improvement of sales are to be implemented.

### **Expansion and Specialization of the Services Network**

In agreement with the policy of expansion of its service network, BANESTES has launched in the beginning of the 2nd half of 2009 its second unit specialized in corporate services, named “BANESTES Empresarial Agência Orla”.

The Bank’s strategic focus, the project “Expansion and Improvement of the Service Network”, must also include new measures that will result in the implementation of new branches specialized in corporate services, renovation and expansion of the existing branches, implementation of new branches in the state and in neighbor states, bordering and defined as influence area of the State of Espírito Santo.

### **Industrial Credit Portfolio**

BANESTES has R\$3.12 billion to finance industrial, crop and livestock farming and agribusiness activities in the second half of 2009 by transferring funds from the National Bank of Economic and Social Development – BNDES. This amount includes various credit facilities to boost the activities of small, mid and large-sized companies.



Accordingly, the Bank proposes actions such as segmenting its products, with priority to credit facilities such as “BNDES Automático”, “FINAME - Agrícola, Moderagro, Moderinfra”, and others. Additionally, the conclusion of projects already analyzed, approved, or in progress amounting to approximately R\$35.00 million would increase the balance of this portfolio to R\$165.00 million.

#### **Real estate credit**

In agreement with the strategic plan for the Bank’s strengthening and growth, BANESTES proposes the restructuring of its real estate credit portfolio, as from the 2nd half of 2009, in order to reestablish real estate credit to Bank’s clients and non-clients. This action brings a favorable prospect to the Bank, given that this credit facility, which has not been available for about 10 years, will be reestablished and the market is still favorable even during this period of recovery from the recent global crisis.

### **9 - SERVICES RENDERED BY EXTERNAL AUDITORS**

Pursuant to article 2 of CVM Instruction No. 381/03, the services rendered by the independent auditor to BANESTES’ Financial System refer exclusively to the external audit.

#### **ACKNOWLEDGEMENTS**

The management of BANESTES S.A. - Banco do Estado do Espírito Santo wishes to thank shareholders and clients for their full support and trust and collaborators for their dedication and effort which have allowed us to achieve increasingly better results.