Brazilian Market Overview

Securities and Fund Services
Learning Objectives

- Objectives of the Webinar:
- Have a better understanding of the Brazilian market infrastructure
- Gain a perspective into all operational areas at Citi, including:
  - Settlements
  - Corporate Actions
  - Proxy
  - Income Collection
  - Taxation
1. Country Overview
Country Overview

Brazil is the 5th largest country in size (8,456,510km or 5,254,631miles) and the 5th most populous (more than 205 million people) in the world. Brazil has a vast mineral resources, including arable land and fresh water. Brazil is also self-sufficient in oil and electric energy.

- **Discovery**: April 22, 1500
- **Location**: South America
- **Population**: more than 190 million (2012)
- **States**: 26 + Federal District
- **Capital**: Brasilia
- **Official Language**: Portuguese
- **Time Difference**: GMT – 3 hours (DST applies)
- **Government**: Presidential Republic (Dilma Rousseff)
- **Currency**: Real (1USD = 2 reais)
- **GDP**: USD 2.1 trillion (2012) – 6 largest economy
- **Inflation**: 6.3 (estimate for 2013)
- **Nominal interest rate**: 8 percent (June 2013)
Economic Outlook

Foreign Direct Investment (in USD Bn)

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>197.9</td>
<td>226.9</td>
<td>146.7</td>
</tr>
<tr>
<td>China</td>
<td>114.7</td>
<td>124.0</td>
<td>119.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>86.7</td>
<td>103.3</td>
<td>72.8</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>82.7</td>
<td>66.7</td>
<td>65.3</td>
</tr>
<tr>
<td>UK</td>
<td>50.6</td>
<td>65.6</td>
<td>82.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>49.6</td>
<td>64.0</td>
<td>58.9</td>
</tr>
<tr>
<td>Russia</td>
<td>48.8</td>
<td>52.9</td>
<td>48.5</td>
</tr>
<tr>
<td>Germany</td>
<td>46.9</td>
<td>51.1</td>
<td>44.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>43.3</td>
<td>41.4</td>
<td>39.6</td>
</tr>
<tr>
<td>Australia</td>
<td>42.8</td>
<td>40.9</td>
<td>27.3</td>
</tr>
<tr>
<td>Spain</td>
<td>40.8</td>
<td>40.4</td>
<td>26.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>35.2</td>
<td>34.3</td>
<td>22.6</td>
</tr>
<tr>
<td>France</td>
<td>32.5</td>
<td>31.6</td>
<td>26.4</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>29.2</td>
<td>29.5</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: UNCTAD, BCB

International Reserves (US$ billion)

Source: BCB

Declining Net Public Debt (% of GDP)

-25.3 p.p. of GDP

Source: BCB

Real Interest Rates

Source: Citi Research
Brazil is expected to continue experiencing challenges in the development process, hand in hand with the challenging international environment.

Challenges

- External: Global monetary and fiscal normalization, stability of financial system.
- Domestic: Growth below potential (3.5 percent) in 2012.

Short Term...

- Challenges to boost GDP growth
- Government influence on the economic environment (energy / oil & gas / banking)
- Still low rate of investments in the overall economy
- Major reforms still at slow pace (government expenditures, tax environment, political reforms, ease of doing business)

Long Term...

- Expected to be the 5th world economy by 2050
- Growth in key segments for identifiable developed countries (i.e. real estate)
- A growing middle class and demographic changes
- A relatively small capital market vis-à-vis possible market size

Opportunities

- World Cup (2014)
- Olympics (2016)
- Housing PAC
- Pre-Salt (Deep Water Oil)
2. Market Infrastructure / Capital Market
Foreign Investment in Brazil

The solid economy and low market risk transformed Brazil into one of the most attractive emerging market countries for foreign investment. Even with high interest rates (7.5 percent on November 5, 2012) compared to other developed countries such as USA, Brazil continues to be a very attractive country for a foreign investor perspective.

Below are some of the main characteristics of the Brazilian market:

- The regulatory framework has undergone important changes in recent years. Currently, transfers to and from abroad are allowed without needing prior authorization of the Central Bank of Brazil, as long as they observe the principles of legality, economic basis and documentary evidence.

- No foreign currency accounts are allowed in Brazilian banks*. As a consequence, all investments must pass through a foreign exchange (FX) transaction, to buy BRL and settle the investment.

- All FX agreements must be registered in Sisbacen (Central Bank system).

- As the Brazilian capital markets gets bigger and more sophisticated, the regulatory controls by CVM and Central Bank are increasing more and more.

* Exceptions exists under very strict limits for infra-structure projects (not related to investment through Resolution 2,689 terms).
Regulatory Landscape

The Brazilian capital markets and financial systems are regulated and monitored by several authorities, including:

• the National Monetary Council (CMN – “Conselho Monetário Nacional”),
• the Brazilian Central Bank (Banco Central do Brasil) and
• the Brazilian Securities and Exchanges Commission (CVM – “Comissão de Valores Mobiliários”)

In accordance with Brazilian regulations, the creation and operation of organized securities markets and custody and settlement systems require prior authorization of the CVM and the Central Bank, depending on the market. Furthermore, entities that engage in those activities and their agents are subject to specific and strict regulatory oversight.

There are 2 important laws regulating foreign investment activities in Brazil include Law 4,131 and Resolution 2,689:

**Law 4,131** regulates direct equity investments in Brazilian companies or through the establishment of a branch of a foreign company (provided prior authorization is obtained from the federal government in the case of the latter). Except as regards to the establishment of a branch, Non-Resident Investments (NRIs) directly investing in the equity of Brazilian companies (4,131 Investors) do not need any specific authorization to make such an investment.

**Resolution 2,689** regulates investments made in the Brazilian financial and capital markets. NRIs registered under the mechanisms provided by Resolution 2,689 can invest in the local financial and capital markets. In general, 2,689 Investors have access to the same investment opportunities in the financial and capital markets as Brazilian residents. The majority of the foreign investment in Brazil occurs thru Resolution 2.689

<table>
<thead>
<tr>
<th>Law 4,131 (Direct Investment)</th>
<th>Resolution 2,689 (Portfolio Investment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“General Rule”</td>
<td>“Specific Rule”</td>
</tr>
<tr>
<td>Related to investment for goods production and services in general.</td>
<td>Regulates non-resident investments in the Brazilian financial and capital markets.</td>
</tr>
<tr>
<td>Usually it is used for long-term investments. As an example, it is using this mechanism that Citi N.A. is holding shares of Banco Citibank S.A. in Brazil.</td>
<td>No restrictions or limits as to the type of securities that can be purchased provided that the instrument is traded through the exchanges, organized OTC market, or any other electronic systems approved by the CVM and Central Bank.</td>
</tr>
<tr>
<td></td>
<td>Requires a local custodian and legal representative in Brazil.</td>
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</table>
In January 2000, the Brazilian government initiated a broad restructuring of international investment vehicles, reducing the barriers and increasing access to the fixed income market. As part of this restructuring, the previous Annex vehicles (I, II, IV and VI) were replaced by a single set of requirements known as the “Portfolio Investment” structure. That was accomplished through the release of CMN Resolution 2689, on 26 January 2000.

Following you will find the main obligations of Resolution 2,689.

- **Final Investor**
  - Notify relevant participation in Brazilian public companies (ex.: more than 5 percent ownership, participation in the company’s board of directors, etc.) – this is a general rule, applicable to all investor, not only foreigners.
  - Comply with Brazilian trading restrictions (insider trading, offer rules, etc.);
  - Register directly with brokers and fund administrators in the Brazilian market.

- **Omnibus Accountholder (usually the Global Custodians)**
  - Responsible for KYC and AML procedures of the final investor, when a indirect relationship is established (ex.: Global Custodians and Brokers);

- **Custodian**
  - Guard all securities and settle all transactions (custody business as usual);
  - Reconcile all positions with the depositaries, on a daily basis;
  - Monitor and control all corporate actions related to the securities under its custody.

- **Legal Representative**
  - Send to CVM a monthly report with all securities positions for the investors it represents, per omnibus accountholder;
  - Send to CVM every semester a report with all securities positions for the investors it represents, per final investor (“passenger’);
  - Collect all taxes that are obligation of the foreign investor in Brazil;
  - Sign FX agreements on behalf of the investors in Brazil;
  - Pay on quarterly basis the CVM fee, per omnibus accountholder;
  - Register all inflows and outflows of the foreign investor in Central Bank’s controls (RDE);
  - Mark-to-market all positions, to proper report to CVM the updated values and update the RDE value in Central Bank.
Depositories and Exchanges

**Depository** is used to refer to any place where something is deposited for storage or security purposes. Depositaries allow brokers and other financial companies to deposit securities where book entry and other services can be performed, like clearance, settlement and securities borrowing and lending.

**Exchanges** is a marketplace in which securities, commodities, derivatives and other financial instruments are traded. Exchanges give companies, governments and other groups a platform to sell securities to the investing public.

There are 3 major depositaries in Brazil: CBLC, SELIC and CETIP.

Below you will learn the main characteristics of each depositary and exchange, and where the different types of securities are traded, cleared and held.

<table>
<thead>
<tr>
<th>Depository</th>
<th>Securities</th>
<th>Stock Exchange or OTC Market</th>
</tr>
</thead>
</table>
| **CBLC**  | • Old Bovespa Segment: Equities and derivatives related to equities, such as options, some corporate bonds and funds. Old BM&F Segment: All other derivatives.  
• CBLC is Central Counterparty (CCP) for all trades executed through the Exchange market.  
• Securities Lending (equities) also operates in the CCP model, through CBLC’s BTC system.  
• For the trades in the OTC market or some specific cases, such as IPOs and tender offers, CBLC does not act as CCP. | **Exchange Market** |
| **SELIC** | • Government bonds and repurchase agreements with such bonds as underlying asset. | **OTC Market**  
• OTC trades can be registered in Selic.  
• Repurchase agreements can also be registered in Selic. |
| **CETIP** | • Corporate bonds (Debentures, Time Deposits, Real Estate backed bonds, close-ended fund shares, etc.);  
• OTC Derivatives (Swaps, Options, etc.);  
• CETIP is the most flexible depositary, accepting a wide range of bond types issued by companies. | **OTC trades can be registered in CETIP.**  
• Secondary market for bonds and fund shares. |
3. What we do
Flow of Investment

Following the flow of investment thought its participants

INSTITUTIONAL FOREIGN INVESTORS

ASSET MANAGERS

GLOBAL CUSTODIANS & INTERNATIONAL BROKER DEALERS

Direct Custody & Clearing

LOCAL MARKET

Local Broker

BM&FBOVESPA

A Nova Bolsa
What we do/offer

In addition to its traditional brokerage and custody operations for local investors, Citi began to offer specialized custody, legal representation and tax representation for foreign investors in 1990. Citi was the first institution to offer custody and administration services to this segment of investors.

Here is a summary of the services that Citi currently offers in Brazil.

Main Custodian Services:
- Trade Initiation; Client Service/ Trade Processing; Corporate Actions & Income Collection; Security settlement; Billing; Risk & Control; Security Master File
- Safekeeping/record-keeping of securities held at depository
- Corporate action management
- Income collection control
- Cash and securities account maintenance
- Reporting

Other Services available:
- Legal Representation services
- Tax Representation services
- Foreign exchanges facilities
- Fund administration

These are some of the most relevant characteristics that make Citi an ideal custody provider:
- Excellent Execution
- Global Consistency
- Citi delivers consistent securities clearing and custody service globally via its core systems and provides support from three Regional Service Centers: Tampa (for the Americas), Dublin (for Western Europe), and Singapore (for Asia)
How we are structured

We are divided into 5 major areas: Salespeople, Relationship Managers, Product Manager, Tampa Operations and Local Branch.

**Salespeople /Account Manager**
- Sells Securities Services products to new customers or expand services for existing customers
- Determines customer’s needs, identify SFS products to meet customer’s needs
- Interfaces with Relationship managers
- Responsible for new business
- Ensures customer satisfaction
- Meets regularly with customers
- Oversees quality delivery

**Relationship Managers**
- Maintain the relationship
- Ensure new portfolios are converted properly
- Manage deals
- Manage documentation and implementation processes
- Manage Client documentation requirements
How we are structured

Product Management

- Keep track of Regulatory Changes (Tax & Corporate Action) and provide updates to internal and external clients.
- Provide market information to clients
- Interface with market infrastructure/participants
- Analysis and development of new and existing products.
- Determine fee structure, unit cost, pricing, revenue and expense.
- Manage SFS products in order to be competitive in the market

Tampa Operations

Responsible for processing and controlling:

- Income Collections
- Corporate Actions
- Client and Trade Processing
- Equity Settlements
- Billing services
- Risk & Control
- Security Master File
How we are structured

Local Branch/Ops

- Manages physical securities
- Manages Documentation / account opening
- Settles Fixed Income transactions
- Supports specific Tampa Corporate Actions and Income activities
4. Settlements Overview
What are Settlements?

Settlements are: ‘The exchange of cash or assets in return for other assets or cash and transfer of the ownership of those assets and cash.’

- Different types of stocks will have different settlement flows
  - e.g. equities, corporate bonds, government bonds, derivatives, options, among others.

- Once the instruction is received, Citi starts a pre-matching process to match the details of the instruction with the counterparty in the market. The status of the transactions is updated every day, and a message is released to the client upon any change of status.

- If the client signs up the Aged Fails Agreement, Citi will cancel any instruction that is not matched for 30 days after Settlement date. This is under review and may potentially be reduced.

- For trades settling at CBLC, Brazil is not a true DVP market, meaning that securities and shares do not move at the same time.
  - On purchases, Citi will first make the payment, and then receive the securities; and
  - On sales, Citi will first deliver the securities, and then receive the payment.

- Trades settling at CETIP and SELIC are true DVP, assets move at the same time as securities.

- For all types of trades, when trade settles, funds and securities are credited / debited from client’s accounts.
Fixed Income Settlement Cycle

Fixed Income - Government (SELIC) and Corporate Bonds (CETIP)
Trade Cycle = T+0

1. Executing Selling Bank
2. Investor
3. Global Custodian
4. CITI Local Custodian
5. SELIC / CETIP
6. Back to Global Custodian
7. Back to Investor
Equities Settlement Cycle

Normal Trade life Cycle = T+3
5. Corporate Action Overview
Corporate Actions - Definitions

In this next section, you will learn about the different types of corporate actions, the purpose and impact of corporate actions events, and how corporate actions are processed and the different market participants involved.

Corporate Actions - Definition

Corporate Actions are actions taken by corporations that may affect the market price of securities. Companies create corporate actions events to help them to:

- Manage the value of their shares / Increase the share price
- Improve their ability to compete in the market place.
- Increase liquidity of their shares in the secondary markets.

There are 3 main types of Corporate Actions:

Voluntary events: Defined as an event where a shareholder is given a choice to participate or not.

- Requires active investor participation: shareholders make decisions about whether or not and to what extent they want to participate.
- Shareholders are given a period of time to make decisions by which time they must inform Citi, as Custodian, of their decision.

Mandatory events: Can be defined as an event that require no action from the shareholders. The event is initiated by the issuer and the investor is just a passive participant.

- Shareholders participate or benefit but do not have to take action

Mandatory events with option: A mixture of the above 2 elements. The events are mandatory but in addition the shareholder has an investment decision to make. These types of actions are rare in Brazil.
Corporate Actions – Voluntary Events

With the fast development of the Brazilian market in the past few years, we have seen companies creating more sophisticated voluntary events. Below are some of the most common voluntary events in Brazil.

Voluntary events examples:

- **Tender Offer**: An offer made to shareholders requesting them to sell (tender) their shares for a specified price, usually at a premium over the prevailing market prices, as an incentive. This corporate action is a cash only offer.

- **Exchange Offers**: An offer to shareholders to exchange their holdings for other securities and/or cash. Exchange offers involve the exchange of an outstanding security for a different security or securities and/or cash.

- **Subscription/Rights**: Distribution of rights, which provide existing shareholders the privilege to subscribe to additional shares. This corporate action has similar features to a bonus and rights issue.

- **Warrants**: Rights (in non-certificated form) are issued to entitled shareholders of the underlying stock. They allow the rights holder to subscribe to additional shares of either the same stock or another stock, at the predetermined rate/ratio and price. Rights are normally tradable and can be sold/bought in the market, subscribed or lapsed.

- **Dissention Offers**: The right of shareholders who are opposed to certain fundamental corporate actions to receive a cash payment for the fair value of their shares.
Corporate Actions – Mandatory Events

Below you will find the most common mandatory events in Brazil.

**Mandatory events examples:**

- **Spin offs**: A distribution of subsidiary stock to the shareholders of the parent corporation without having cost to the shareholder of the parent issue.

- **Mandatory Exchanges**: Exchange of securities. For example from bearer to registered, domestic to international or administrative exchange of certificates from paper form to electronic.

- **Mergers and Acquisitions**: Merger of 2 or more companies into one new company. The shares of the old companies are consequently exchanged into shares in the new company according to a set ratio.

- **Stock Splits**: A stock split is a division of the company shares into ‘X’ number of new shares with a nominal value of ‘1/X’ of the original share. For example a ‘Gerdau shares’ 2 for 1 stock split, where a Gerdau share par value decreases to BRL0.50, whilst the number of share doubles. Please note there is no increase in total value of the shares outstanding.

- **Reverse Splits**: When the company decides to decrease the amount of its outstanding shares while at the same time increase the nominal share price proportionally.

- **Stock Dividend**: Almost identical to bonus issues where additional shares in either the same or different stock is issued to shareholders of the underlying stock. Usually happens when the company reports profits and wants to pass thru the investors.

- **Bonus**: Shareholders are awarded additional securities (shares, rights or warrants) free of payment. The nominal value of shares does not change. Happens when the company wants to increase capital.

- **Mandatory Conversion**: Conversion of securities (generally convertible bonds or preferred shares) into another type of securities (usually common shares).
Corporate Actions – Dates Definition

Corporate actions have a number of critical dates associated with them. Here is a brief explanation of each of these dates:

- **Announcement Date**
  - Date on which the company’s board of directors announces the corporate action

- **Reply-by Date**
  - Date established for receipt of customer’s instructions regarding a voluntary corporate action
  - Two reply-by dates:
    1) date set by Citi for the receipt of our customers’ instructions
    2) date by which Citi must advise the agent/market of elections on behalf of our customers
  - For Voluntary/Mandatory with Option corporate actions only

- **Ex-Date**
  - The ex-date is the first day of trading on which a trade ceases to be entitled to that corporate action. Any trades booked on or after the ex date will be on an ex-entitlement basis, unless the seller and buyer agree to a special cum transaction, reflected in the price of the stock relative to the current market price.
  - This date is set by the local stock exchange.

- **Record Date**
  - Date by which an investor must be a holder of record on the books of the issuer/registrar in order to receive the benefits of a corporate action

- **Payable Date**
  - Date the corporate action is scheduled to be paid. Shareholders may receive, securities or cash, or both
Corporate Actions – Duties as Custodian

As a custodian Citi has the responsibility to perform these duties in a **voluntary or mandatory with option corporate action**:

- Receive notice of the corporate action
- Notify the customer of the corporate event
- Reconcile Citi’s position with the depository’s position and calculate entitlements
- Send confirmation of the entitlement to the customer (MT564 entitlement messages)
- Collect, consolidate and send customer instructions to the agent bank/branch or depository or issuer including FX instructions where appropriate
- Send confirmation of execution to the customer (MT566 messages)
- Credit or debit the customer’s account accordingly and perform FX where appropriate
- Initiate claims when entitlements are delivered to the counterparty (upon client request)

As a custodian Citi has the responsibility to perform these duties in a **Mandatory corporate action**:

- Receive notice of the corporate action
- Notify the customer of the corporate event
- Reconcile Citi’s position with the depository’s position and calculate entitlements
- Send confirmation of the entitlement to the customer (MT564 entitlement messages)
- Credit or debit the customer’s account accordingly and perform FX where appropriate (MT566 messages)
- Initiate claims when entitlements are delivered to the counterparty (upon client request)
Corporate Actions – Sources of Information

To create the events and generate the appropriate message to our clients, the Events Creation Team utilizes 3 key sources of information: Bovespa web articles, Bovespa terminal and major newspaper information via vendor. Below you will find a brief explanation about each source of information.

Bovespa / Web Articles

- Timely basis announcements at the Depository’s web site
- Covers most of the corporate actions events created
- Maker and checker process
- Average of 90 announcements per day

Bovespa Terminal (Providia)

- File downloaded daily from a Bovespa terminal
- Contains all mandatory events that have gone EX in Brazil
- Maker and checker process

Newspaper - Vendor

- Daily newspaper clips sent by our vendor
- Contains all publications including the ones not published by Bovespa
- Average of 40 announcements per day
- Maker and checker process
Corporate Actions – Most common SWIFT messages

Below you will find a list with the most important SWIFT messages used for corporate actions.

- **MT564 Event Notification** – message is generated to holders who held position when the event is created.
- **MT564 Entitlement Notification** – message is generated to eligible holders only. Clients that held the position on the date of the record date of the event.
- **MT565 Corporate Action Instruction** – message received from our clients indicating an election on a voluntary corporate action event
- **MT566 Payment Confirmation** – message is generated to our clients once credit is posted into clients account
- **MT567 Corporate Action Status and Processing Advice** – Citi generates this message as a response/acknowledge of the MT565 received from our clients and to provide status of payment.
- **MT568 Corporate Action Narrative** – message is used to provide relevant narrative details that was not included in the MT564 message due to space limitation. As per Citi standard, this message will always be linked to a MT564 message.
- **MT599 Free Format Message** – message is used to communicate/received relevant information to/from our client.
Current Workflow – Corporate Actions

Local Market

1. Local Newspapers/Vendors
1a. Depositories and/or Agents
7. Issuer
8. Local Market

Tampa RSC

2. Analysis and translation of information
3. SECORE (mainframe system)

4. Instructions received via SWIFT MT565/MT568
5. Processing of instructions and payment to the Depositary
6. Event Announcement SWIFT MT564/MT568

Client

3. SWIFT MT566
4. Payment confirmation via SWIFT MT566
5. Processing Payment of shares and cash

6. Cash System (Cosmos)
7. Account statement via SWIFT MT910
8. Rights Workbeanch
6. Proxy Overview
Proxy Services

As a custodian, Citi provides a proactive proxy service to its clients, which includes the below responsibilities.

- Announcement of Annual General Meetings & Extraordinary General Meetings,
- Meeting attendance and voting on customers’ behalf upon receipt of complete and timely voting instructions
- Provision of meeting results, when published.

Citi can also accommodate a working relationship with third party providers such as Broadridge / ISS, upon instruction from clients.

In Brazil, only physical attendance is allowed in the meetings. According to the legislation, the representative must be a lawyer appointed through a Power of Attorney (POA) by the final investor. The POA must be signed by the final investor and must be notarized and consularized to allow proper registration at the local Notary Publics. A POA must be renewed annually.

Brazilian companies will only accept documents and POAs in Portuguese, thus POAs provided in English must be sent to a certified translator. If the POA is provided in Portuguese, only few words of the POA and the notarization section need to be translated. Therefore, a POA provided in English or in Portuguese must be locally sworn translated before the POA can be properly registered with the local Notary Publics.
7. Income Collection Overview
Income Collections - Business Definitions

**Income collections** is the tracking and receipt of client dividends, interest and other security income to which the custody client is entitled due to the securities owned. Interest and dividends are the most common forms of income collected.

Below are the most common Income Collections events examples:

- **Cash Dividends**: Dividends are net earnings or profit payments made by a company and distributed to its stockholders. These payments can be made in the form of cash or shares.

- **Interest Over Capital**: is distributed by local companies according to the corporate profit before tax. As a result, the amounts related to these events are all subject to tax at the shareholder level. The tax rate varies depending on the domicile of the investor:

- **Inflation of Adjustment**: is an adjustment of the original dividend rate to compensate investors from the approved dividend date up until the actual payment of the dividend.

- **Interest Payments**: Interest is a payment made by a company to its bondholders. Generally there is a fixed rate of interest, which is paid in regular, predetermined intervals.

- **Redemptions**: when a bond reaches its maturity date and the capital is returned to the shareholder

- **Principal and Interest Payments**: Some instruments pay interest and principal. One example is Government Bonds (Nota do Tesouro). These bonds pay on a schedule basis (semi-annually) interest and on last period pay both interest and principal.
Income Collections – Definitions

Below is a brief summary of the most important terms and definitions related to Income Collections.

- **Cash Dividend Dates**: Ex-Date. Record Date. Pay Date. These dates are announced by the issuer companies and follow some local market rules. (Please see the rules in the table below).

- **Traded Transaction**: is a transaction traded in the local market. An Instruction to Citi is also submitted on “Trade Date” (or before “Settlement date”).

- **Settled Transaction**: when a transaction is registered in the local market on “Settlement Date”.

- **Entitled Position (Entitle Eligibility)**: Is the position an account is entitled to receive dividends. For all LATAM markets, it is the summation of shares of all settled transactions that were traded before Ex-date.

- **Paid-On Position**: Is the position for which the Depository or paying agent disburses Dividends (How the Depository pays). In general, for most of the LATAM markets, it is the summation of all transactions settled on record date (or before) that were traded before Ex-date.

- **Claim**: In the case where there is a difference between the Entitled Position (Eligible) and the Paid-On Position, a claim should be open as per client request to the counterparty.

### Cash Dividend Date Rules

<table>
<thead>
<tr>
<th></th>
<th>Ex-Date (ExD)</th>
<th>Record Date (RD)</th>
<th>Pay Date (PD)</th>
<th>Depository</th>
<th>Exceptions to the Paid-On position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>ANNOUNCED: Record Date minus one day. (RD+1)</td>
<td>ANNOUNCED Based on ExD: RD= ExD-1</td>
<td>ANNOUNCED: Not a standard.</td>
<td>BOVESPA</td>
<td>*Depository pays dividends on settle position as of ExD+2. * Please see additional exceptions at the end of this document.</td>
</tr>
</tbody>
</table>

*Please see additional exceptions at the end of this document.*
The normal life cycle of a transaction in Brazil is T+3. A client is eligible to receive a dividend payment if the transaction occurs up until the record date of the event. When a client buys shares of company “X” on ex-date, he is not entitled to receive the dividend payment because he bought it without the right to receive the dividend.

Eligibility exceptions:
1) Trades which do not meet the transaction life cycle.
2) Dividends will be paid by Depositary if they are settled before Record Date (RD) (or if are settled in ExD+2 or before), meaning all transactions with trade date + settlement date between record date and settlement date will receive the dividend.
Income Collections – Duties as Custodian

As a custodian, Citi has the responsibility to perform these duties with respect to Income Collections:

- Receive notice of the Income Collection
- Notify the customer of the corporate event
- Reconcile Citi’s position with the depository’s position and Calculate entitlements
- Send confirmation of the entitlement to the customer
- Credit or debit the customer’s account accordingly
- Advise the customer of income collection credit activity to the customer’s account
- Initiate claims when entitlements are delivered to the wrong party
Corporate Actions – Most common SWIFT messages

Below you will find a list with the most important SWIFT messages used for corporate actions.

- **MT564 Event Notification** – message is generated to holders who held position when the event is created.
- **MT564 Entitlement Notification** – message is generated to eligible holders only. Clients that held the position on the date of the record date of the event.
- **MT566 Payment Confirmation** – message is generated to our clients once credit is posted into clients account.
- **MT567 Payment Status** – Citi generates this message to inform our clients about payment status. Usually, message is generated when Citi does not receive the funds from the depositary/issuer.
- **MT568 Corporate Action Narrative** – message is used to provide relevant narrative details that was not included in the MT564 message due to space limitation. As per Citi standard, this message will always be linked to a MT564 message.
Current Workflow – Income Collection

Local Market

1. Local Newspapers/Vendors

1a. Depositories and/or Agents

5. Issuer

6. Issuer

Tampa RSC

2. Analysis and translation of information

4. Reconciliation Process

8. Processing Payment of shares and cash

9. Cash System (Cosmos)

10. Dividend Workbeanch

11. Payment confirmation Via SWIFT MT566

12. Account statement via SWIFT MT910

Client

3. Event Announcement SWIFT MT564/MT568
8. Taxation
IOF Tax on FX Transactions

Taxation in Brazil is always a challenge. Changes may occur with short notice. Usually this happens because of intentions to avoid significant fluctuations of the local currency.

Because of this, Citi maintains a dual Cash Account structure, where in one account we settle all the assets for which currently the investor pays no IOF tax (Equities Cash Account), and another account where we settle all the assets for which the investor needed to pay 6 percent IOF tax on the FX inflow (‘Other Instruments’ cash account).

On 5 June 2013 the Government reduced IOF tax on FX inflows for investments in securities to 0 percent. Below are the details of what assets can go into the Equities Cash Account and the ‘Other Instruments’ Cash Account.

Currently IOF on Simultaneous FX:
- 0 percent - Transfer of funds from the account for “Equities” to the account for “Other Instruments”
- 0 percent - Post cash as collateral to cover margin calls at BM&FBovespa

**** for further /up to date details about taxation, please refer to the Market Profile.
### General Rates and Conditions

<table>
<thead>
<tr>
<th>Foreign Investors</th>
<th>Non Tax Haven</th>
<th>Tax Haven</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong> (on exchange)</td>
<td>0 percent</td>
<td>15 percent</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>0 percent</td>
<td>0 percent</td>
</tr>
<tr>
<td><strong>Interest on capital</strong></td>
<td>15 percent</td>
<td>25 percent</td>
</tr>
<tr>
<td><strong>Government bonds</strong></td>
<td>0 percent</td>
<td></td>
</tr>
<tr>
<td><strong>Corporate bonds</strong> (general rule)</td>
<td>15 percent</td>
<td></td>
</tr>
<tr>
<td><strong>Mutual funds</strong> (general rule)</td>
<td>15 percent</td>
<td></td>
</tr>
</tbody>
</table>

The applicable tax rate depends on the period the investor holds the security:
- **Up to 180 days**: 22.5 percent
- **From 181 to 360 days**: 20 percent
- **From 361 to 720 days**: 17.5 percent
- **Over 720 days**: 15 percent

***for further /up to date details about taxation, please refer to the Market Profile.***
Appendixes
Settlement Cycle

The next 5 slides will outline the process and cut off times (always local time) for each date of the process, considering trade date as the first step and trade date +4 the last step.

Equities – Trade date

- **Investor instructs Global Custodian**
- **Broker instructs Local Custodian**
- **Trading Session**
- **F/X possible**
- **Final Beneficiary Specification**
- **Equities – Trade date**
Settlement Cycle

Equities – Trade Date + 1

- Investor instructs Global Custodian
- Global Custodian instructs Local Custodian
- Broker instructs Local Custodian
- F/X possible
- Final Beneficiary Specification
Settlement Cycle

Equities – Trade Date + 2

- Investor instructs Global Custodian
- Global Custodian instructs Local Custodian - Sale
- Global Custodian instructs Local Custodian – Purchase
- Broker instructs Local Custodian
- Local Custodian Market Deadline Receipts and Deliveries Authorization
- F/X possible
Equities – Trade Date + 3

- Shares debited from the Seller*
- Report to Brokers and Custodians
- Local Fund Availability Deadline
- Financial Settlement
- Cash debited from Buyer’s Clearing Agent
- Shares credited to Buyer and Cash credited to Seller’s Clearing Agent
- Buying Broker’s Restriction Deadline
- F/X possible
- Shares debited from the Seller*
- Restriction Cancellation Deadline

* Fail Penalty of 20 bps to the Seller’s Clearing Agent

Settlement Cycle
Settlement Cycle

Equities – Trade Date + 4

Fail Penalty of 20 bps to the Seller’s Clearing Agent

Buy-in Issuance

Fail Coverage’s Deadline
Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi’s unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change; includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.