

(A free translation of the original in Portuguese)

Brazilian Finance & Real Estate S.A. and Subsidiaries

**Financial Statements at
December 31, 2008 and 2007
and Report of Independent Auditors**

(A free translation of the original in Portuguese)

Report of Independent Auditors


To the Board of Directors and Stockholders
Brazilian Finance & Real Estate S.A.

- 1 We have audited the accompanying balance sheet of Brazilian Finance & Real Estate S.A. and the consolidated balance sheet of Brazilian Finance & Real Estate S.A. and its subsidiaries as of December 31, 2008, and the related statements of income, of changes in stockholders' equity, of cash flows and of value added of Brazilian Finance & Real Estate S.A., as well as the related consolidated statements of income, of cash flows and of value added, for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Brazilian Finance & Real Estate S.A. and of Brazilian Finance & Real Estate S.A. and its subsidiaries at December 31, 2008, and the results of operations, the changes in stockholders' equity, cash flows and value added of Brazilian Finance & Real Estate S.A., as well as the consolidated results of operations, consolidated cash flows and consolidated value added of Brazilian Finance & Real Estate S.A. and its subsidiaries, for the year then ended, in accordance with accounting practices adopted in Brazil.

Brazilian Finance & Real Estate S.A.

- 4 Previously, we audited the financial statements (Parent Company and consolidated) for the year ended December 31, 2007, comprising the balance sheet at December 31, 2007 and the statements of Income, of changes in stockholders' equity and of changes in financial position for the year then ended, on which we issued an unqualified opinion, dated February 1, 2008. As mentioned in Note 2, the accounting practices adopted in Brazil were modified on January 1, 2008, and the financial statements for the year ended December 31, 2007, presented jointly with the financial statements for 2008, were prepared in accordance with the accounting practices adopted in Brazil until December 31, 2007, and, as allowed by Technical Pronouncement No. 13 of the Brazilian Accounting Pronouncements Committee (CPC) - Initial Adoption of Law No. 11638/07 and Provisional Measure No. 449/08, they have not been restated to facilitate comparison between the years.
- 5 The statements of cash flows (Parent Company and consolidated) for the year ended December 31, 2007, prepared in connection with the financial statements for 2008, were subjected to the auditing procedures described in paragraph 2, and, in our opinion, they are fairly presented, in all material respects, in relation to the financial statements mentioned in paragraph 4, taken as a whole.

São Paulo, March 2, 2009


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5


Edison Arisa Pereira
Contador CRC 1SP127241/O-0

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

Balance Sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets				
Current assets	61,247	10,769	393,290	323,105
Cash and banks	14	56	4,108	4,174
Marketable securities and derivative financial instruments (Note 4)	28,845		104,411	39,695
Mortgage loans (Note 5)			182,473	101,605
Mortgage related receivables (Note 7)			32,294	120,141
Other receivables (Note 8)	32,366	10,699	69,129	58,248
Other assets (Note 9)	22	14	875	1,242
Non-current assets	549,849	447,776	918,510	761,812
Long-term receivables	169,780		604,540	422,756
Marketable securities and derivative financial instruments (Note 4)	169,780		279,396	230,014
Mortgage loans (Note 5)			141,073	63,624
Securitized transactions (Note 6)			28,807	16,942
Mortgage related receivables (Note 7)			138,302	111,976
Other receivables (Note 8)			16,807	195
Other assets (Note 9)			155	5
Investments	379,309	447,764	310,893	336,366
Investments in subsidiaries (Note 10)	384,426	447,764		
Other investments			449	291
Goodwill / negative goodwill	(5,117)			
Properties for rent (Note 18(j))			75,162	144,285
Properties for rent under construction (Note 18(j))			235,282	191,790
Property and equipment	644		2,757	1,701
Intangible assets	116	12	320	989
Software	145	13	584	1,138
Goodwill on acquisition of investments				648
Goodwill on merger			29,014	29,014
(-) Provision for goodwill on merger			(10,701)	(15,626)
(-) Accumulated amortization	(29)	(1)	(18,577)	(14,185)
Total assets	611,096	458,545	1,311,800	1,084,917

Brazilian Finance & Real Estate S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

(continued)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Liabilities and stockholders' equity				
Current liabilities	120,798	11,275	419,806	353,839
Collateralized mortgage notes (Note 11)			194,256	96,969
Mortgage backed securities (CRIs) (Note 12)			4,191	318
Borrowings (Note 13)	103,193	1,121	113,770	11,256
Derivative financial instruments (Note 16)				919
Liabilities from the acquisition of mortgage loans (Note 7)			55,785	123,093
Other liabilities (Note 14)	17,605	10,154	51,804	121,284
Non-current liabilities	5,683		415,428	284,561
Long-term liabilities	5,683		415,428	253,692
Collateralized mortgage notes (Note 11)			46,170	21,957
Mortgage backed securities (CRIs) (Note 12)			40,880	3,636
Borrowings (Note 13)	5,683		185,353	91,663
Derivative financial instruments (Note 16)				775
Liabilities from the acquisition of mortgage loans (Note 7)			10,470	23,429
Other liabilities (Note 14)			127,438	107,115
Negative goodwill on consolidated investments			5,117	5,117
Minority interest				30,869
Stockholders' equity (Note 15)	484,615	447,270	476,566	446,517
Capital	422,250	398,333	422,250	398,333
Capital reserve	94	94	94	94
Revenue reserves	60,151	48,843	52,102	48,090
Carrying value adjustment	2,120		2,120	
Total liabilities and stockholders' equity	611,096	458,545	1,311,800	1,084,917

The accompanying notes are an integral part of these financial statements.

Brazilian Finance & Real Estate S.A. and Subsidiaries

**Statements of Income
Years ended December 31**

In thousands of reais

(A free translation of the original in Portuguese)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Income from financial intermediation and related to property				
Marketable securities	32,242		168,240	119,036
Rental and sale of properties (Note 18(j))	31,843		4,399	29,073
Lending operations		399	48,563	51,421
Securitization transactions (Note 18(b))			45,819	13,489
			69,459	25,053
Expenses from financial Intermediation	<u>(7,237)</u>	<u>(38)</u>	<u>(77,168)</u>	<u>(31,780)</u>
Funds obtained in the market			(23,353)	(7,171)
Borrowings and onlendings	(7,237)	(38)	(82,040)	(999)
Mortgage backed securities (CRIs)			(2,713)	(478)
Derivatives			38,421	(16,793)
Cost of rented properties - depreciation			(6,624)	(6,019)
Allowance for loan losses			(859)	(320)
Net results from financial intermediation	<u>25,005</u>	<u>(38)</u>	<u>91,072</u>	<u>87,256</u>
Equity In the earnings of subsidiaries	<u>27,461</u>	<u>61,353</u>		
Equity in earnings of subsidiaries	27,461	61,353		
Operating income (expenses)	<u>(23,044)</u>	<u>(2,414)</u>	<u>(49,827)</u>	<u>(9,175)</u>
Income from services rendered (Note 18(c))			31,720	20,274
Administrative expenses	(8,941)	(1,023)	(33,414)	(10,909)
Personnel expenses (includes R\$ 8,827 of management fees in consolidated, 2007 - R\$ 2,975)	(6,969)	(41)	(34,592)	(11,173)
Taxes	(1,785)	(1,342)	(9,257)	(7,649)
Other operating income (Note 18(d))	428		7,006	3,835
Other operating expenses (Note 18(d))	(5,777)	(8)	(11,290)	(3,553)
Profit before taxation and profit sharing	<u>29,422</u>	<u>58,901</u>	<u>41,245</u>	<u>78,081</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Statements of Income
Years ended December 31
 In thousands of reais

(continued)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Income tax and social contribution	(5,520)		(15,600)	(26,167)
Deferred tax	11,019		2,240	6,713
Profit sharing			(154)	(117)
Minority interest			(871)	(359)
Net income for the year	<u>34,921</u>	<u>58,901</u>	<u>26,860</u>	<u>58,151</u>
Unrealized results of the Parent Company, eliminated from the consolidated against assets of the subsidiary			8,220	750
Other			(159)	
Net income of the parent company	<u>34,921</u>	<u>58,901</u>	<u>34,921</u>	<u>58,901</u>
Net income per share - R\$	<u>0.084</u>	<u>0.1474</u>		

The accompanying notes are an integral part of these financial statements.

Brazilian Finance & Real Estate S.A.

Statements of Changes in Stockholders' Equity
In thousands of reais

(A free translation of the original in Portuguese)

	Capital	Capital reserve - premium	Revenue reserves		Carrying value adjustment	Retained earnings	Total
			Legal reserve	Profit retention			
At December 31, 2007	398,333	94	2,946	45,897	-	-	447,270
Prior year adjustments (Note 2)					1,643		1,643
Capital increase (Note 15)	23,917						23,917
Carrying value adjustments					477		477
Net income for the year						34,921	34,921
Mandatory dividends (R\$ 0.014 per share)						(5,971)	(5,971)
Interest on own capital (R\$ 0.043 per share)						(17,642)	(17,642)
Appropriations to reserves			1,746	9,562		(11,308)	-
At December 31, 2008	422,250	94	4,692	55,459	2,120	-	486,615
At December 31, 2006	1,183					(1,183)	
Capital increase with credits	46						46
Capital reduction	(1,212)					1,197	(15)
Capital increase with transfer of assets (Note 15)	200,540						200,540
Capital increase in cash (Note 15)	197,776	131,606					329,382
Amortization of premium (Notes 10 and 15)		(131,512)					(131,512)
Net income for the year						58,901	58,901
Mandatory dividends (R\$ 0.025 per share)						(10,072)	(10,072)
Appropriations to reserves			2,946	45,897		(48,843)	-
At December 31, 2007	398,333	94	2,946	45,897	-	-	447,270

The accompanying notes are an integral part of these financial statements.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Statement of Cash Flows Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Cash flow from operating activities				
Net income	34,921	58,901	26,860	58,151
Equity in the results of subsidiaries	(27,481)	(61,353)		
Depreciation and amortization	149		6,981	6,425
Reversal of provision for goodwill from merger			(5,803)	(3,385)
Mark-to-market adjustments	(2,120)		(2,120)	
Amortization of goodwill on investments	648		6,451	3,385
Adjusted net income (loss)	6,137	(2,452)	32,369	64,576
Variation in assets and liabilities				
Decrease (increase) in marketable securities	(198,625)		(114,098)	(289,709)
Decrease (increase) in mortgage loans			(158,317)	(165,229)
Decrease (increase) securitized transactions			(11,865)	(16,942)
Decrease (increase) in mortgage related receivables			61,521	(232,117)
Decrease (increase) in other receivables	(25,263)		(29,493)	(56,443)
Decrease (increase) in other assets	(8)	(14)	216	(1,247)
Increase (decrease) in collateralized mortgage notes			121,500	118,926
Increase (decrease) in mortgage backed securities			41,117	3,954
Increase (decrease) in derivative financial instruments			(1,694)	1,694
Increase (decrease) in liabilities from the acquisition of mortgage loans			(80,267)	146,522
Increase (decrease) in other liabilities	11,551	82	(39,085)	218,327
Minority interest			(30,869)	30,869
Net cash used in operating activities	(206,208)	(2,384)	(208,965)	(156,819)

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

Statement of Cash Flows
Years ended December 31, 2008 and 2007
In thousands of reais

(continued)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash flows from investing activities				
Receipt of dividends	14,499			-
Disposal of investments	459,061		96,078	203,728
Disposal of property and equipment in use	78		296	15
Decrease in Intangibles	18		18	151
Acquisition of investments	(370,454)	(397,110)	(78,194)	(541,644)
Acquisition of property and equipment in use	(838)		(1,469)	(1,884)
Investments in intangible	(156)	(12)	(237)	(731)
Net cash provided by (used in) investing activities	<u>102,208</u>	<u>(397,122)</u>	<u>16,492</u>	<u>(340,367)</u>
Cash flows from financing activities				
Increase in borrowings	107,755	1,121	196,204	102,919
Increase in capital	23,917	398,347	23,917	398,347
Increase (decrease) in capital reserve		94		94
Dividends/ interest on capital, paid	(27,714)		(27,714)	
Net cash provided by financing activities	<u>103,958</u>	<u>399,562</u>	<u>192,407</u>	<u>501,360</u>
Net Increase (decrease) in cash and cash equivalents	<u>(42)</u>	<u>56</u>	<u>(88)</u>	<u>4,174</u>
Cash and banks at the beginning of the year	56	-	4,174	-
Cash and banks at the end of the year	14	56	4,108	4,174

The accompanying notes are an integral part of these financial statements.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Statement of Value Added
Year ended December 31, 2008**

In thousands of reais

(A free translation of the original in Portuguese)

	Parent Company	Consolidated
	2008	2008
1 - Income	32,670	206,107
1.1) Financial and related to property intermediation	32,242	168,240
1.2) Services rendered		31,720
1.3) Allowance for loan losses - reversal/(recording)		(859)
1.4) Other	428	7,006
2 - Expenses with financial Intermediation	(7,237)	(76,309)
2.1) Funds obtained in the market		(23,353)
2.2) Borrowings and onlendings	(7,237)	(82,040)
2.3) Mortgage Backed Securities (CRI's)		(2,713)
2.4) Transactions with derivatives		38,421
2.5) Cost of rented properties - depreciation		(6,624)
3 - Inputs acquired from third parties	(14,106)	(41,153)
3.1) Materials, energy, etc.	(76)	(218)
3.2) Services from third parties	(6,132)	(12,807)
3.3) Loss/recovery of asset amounts	(8)	(8)
3.4) Other	(7,890)	(28,120)
Advertising, marketing, publications	(656)	(4,049)
Financial system services	(158)	(4,048)
Communications	(161)	(1,268)
Philanthropic contributions	(445)	(674)
Guarantees provided	(5,080)	(5,080)
Goodwill amortization	(647)	(647)
Other	(743)	(12,354)
4 - Gross added value, (1-2-3)	11,327	88,645
5 - Depreciation, amortization	(149)	(555)
6 - Net added value produced by the entity (4-5)	11,178	88,090
7 - Added value received through transfer	27,461	
7.1) Equity in the results of subsidiaries	27,461	
8 - Total added value distributable (6+7)	38,639	88,090

Brazilian Finance & Real Estate S.A. e Subsidiaries

Statement of Value Added
Year ended December 31, 2008
 In thousands of reais

(continued)

	Parent Company	Consolidated
	2008	2007
9 - Distribution of value added	38,639	88,090
9.1) Personnel	5,955	29,397
9.1.1 - Salaries	4,544	22,693
9.1.2 - Benefits	984	5,482
9.1.3 - Government Severance Indemnity Fund for Employees (FGTS)	417	1,222
9.2) Taxes, charges and contributions	(2,637)	28,106
9.2.1 - Federal	(2,626)	26,115
9.2.2 - State	(2)	103
9.2.3 - Municipal	(9)	1,888
9.3) Remuneration of third parties' capital	400	2,856
9.3.1 - Rentals	400	2,856
9.4) Remuneration of own capital	34,921	27,731
9.4.1 - Interest on own capital	17,642	17,642
9.4.2 - Dividends	5,971	5,971
9.4.3 - Retained earnings for the year	11,308	3,247
9.4.4 - Minority interest in retained earnings		871

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reals unless otherwise indicated

1 Operations

The objectives of Brazilian Finance & Real Estate S.A., formerly named Opportunity Discovery Participações S.A. (the "Company"), are to invest in other companies, whether civil or commercial, Brazilian or foreign, as a partner, stockholder or quotaholder, to participate in real estate developments and to invest, as a quotaholder, in regularly established investment funds.

Until March 2007, the Company belonged to a different economic group and was dormant. On March 9, 2007, Ourinvest Real Estate Holding S.A. purchased 100% of the Company's capital. The transaction was approved by the Brazilian Securities Commission (CVM). The Company's capital is currently held by Ourinvest Real Estate Holding S.A. and TPG - Axon BFRE Holding, LLC (Note 15).

As from June 2007, the Company became the owner of 100% of the capital of Brazilian Finance & Real Estate Participações S.A. ("BFRE Participações"), which, in turn, directly or indirectly controls the following investees: Brazilian Mortgages Companhia Hipotecária (BM), Brazilian Securities Companhia de Securitização (BS), Brazilian Capital Companhia de Gestão de Investimentos Imobiliários (BC), BMSR II Participações S.A. (which holds 100% of the capital of BM) and BM Sua Casa Promotora de Vendas Ltda. (together, the "Companies").

The Extraordinary General Meeting of April 1, 2008, approved the merger of Brazilian Finance & Real Estate Participações S.A. into the Company, without capital increase, without issuing new shares or any changes in the Company's stockholders' equity, based on the accounting balance sheet of BFRE Participações at December 31, 2007, in conformity with article 226 of the Brazilian Corporation Law. As a result of the merger, the Company became the successor of BFRE Participações in all its rights and obligations, and the latter was automatically considered extinct as soon as its equity was transferred to the Company. The equity changes observed at BFRE Participações between the base date, i.e. December 31, 2007, and March 31, 2008 were absorbed by the Company as from April 1, the date of the Corporate Instrument.

The merger was adopted as a measure to streamline the activities of the Companies, and also to ensure flexibility and efficiency in managing their net assets within the context of the organizational process of the group to which they belong. This process covers, among other measures, the simplification of the shareholding structure, and the optimization of the

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

results of business and operations carried out by the Companies, so as to enable a decrease in operating costs and a more effective management, thus meeting the stockholders' interests.

With the abovementioned merger, as from April 1, 2008, the investees have been directly controlled by the Company, except for Brazilian Mortgages, an investee controlled through BMSR II.

The activities of the investees are directly linked to the Brazilian real estate financing market, operating: (i) in the financing of residential and commercial real estate ventures for land developers/builders and individuals; (ii) in the acquisition and securitization of mortgage and real estate credits, which include the purchase, sale and provision of guarantees in mortgage and real estate credits; the issue and placement, in the financial market, of Mortgage Backed Securities ("CRIs") and other credit securities; and the rendering of services and realization of other activities relating to operations in the secondary mortgage and real estate credit markets, in accordance with Law 9514, of November 20, 1997; and (iii) in the management and operation of real estate assets on behalf of third parties in Brazil, the rendering of advisory and consulting services to third parties in real estate sector projects, the management of securities and rendering of advisory and technical-financial structuring services to obtain funds from investors for real estate projects.

As from the second half of 2007, BFRE Participações: (a) increased its interest in the capital of Klabin Segall Lapa Empreendimentos Imobiliários S.A. to 25.5% and (b) acquired an interest in the capital of Parque Cidade Incorporações S.A. and became the owner of 66.67% of the capital of this investee. The control and management of these investees are shared through a stockholders' agreement.

Furthermore, at December 31, 2008, Brazilian Finance & Real Estate S.A. and subsidiaries jointly hold investments in the following real estate investment funds, which were subject to consolidation, and were set up in conformity with CVM instruction No. 205: Fundo de Investimento Imobiliário Premier Realty (100%), Fundo de Investimento Imobiliário BM Asset (100%), Fundo de Investimento Imobiliário Excellence (100%), Fundo de Investimento Imobiliário Comercial Progressivo (100%) and Fundo de Investimento Imobiliário Property Invest (100%).

A single integrated corporate structure provides support to the business activities, including all the technology, processing and operating, commercial, administrative, financial and legal controls necessary to perform the various activities in the real estate segment.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

2 Presentation of the Financial Statements

The financial statements are presented in accordance with accounting practices adopted in Brazil and were prepared as determined by the Brazilian Corporate Law and the regulations of the Brazilian Securities Commission (CVM) and the Brazilian Central Bank (BACEN).

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment, provisions necessary for contingent liabilities, allowances for loan losses, fair values, taxes and other similar charges. Actual results may differ from these estimates.

Law No. 11638/2007 was enacted on December 28, 2007, and amended by the Provisional Measure (MP) No. 449, dated December 3, 2008. This Law and the provisional measure amended and introduced new provisions to the Brazilian Corporation Law. Their main objective was to update the Brazilian corporate legislation to make possible the process of convergence of the accounting practices adopted in Brazil with those included in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The adoption of the law and provisional measure is mandatory for annual financial statements for years beginning on or after January 1, 2008.

The changes to the Brazilian Corporation Law had the following impacts on the financial statements of the Company:

- (a) **Financial investments and other financial assets:** these were classified into three categories, according to management's intention: (i) trading; (ii) available for sale; and (iii) held to maturity, with the two first categories being stated at market value and the third, at cost plus earnings.
- (b) **Reclassifications:** software in use, previously recorded as deferred charges, were reclassified to intangible assets.
- (c) **Derivative financial instruments -** the Company started recording derivative financial instruments at fair value (Note 16).
- (d) **The Statement of Changes in Financial Position** was replaced with the **Statement of Cash Flows**.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (e) Presentation of the Statement of Value Added (DVA).
- (f) Adjustment to present value: amounts receivable and payable with long-term maturities were adjusted to present value.

As permitted by the Pronouncement No. 13 of the Brazilian Accounting Pronouncements Committee (CPC) - Initial Adoption of Law No. 11638/07 and Provisional Measure No. 449/08, the Company's Management chose to make the adjustments resulting from the adoption of the referred law applicable to the year 2007, directly against stockholders' equity, as prior year adjustments. The changes in accounting practices described above affected the stockholders' equity as of December 31, 2007, by the amount of R\$ 1,643, and this amount was recorded as a prior year adjustment in the "carrying value adjustment" account, since it results from the fair-value adjustment of the financial assets classified as available for sale. The results for the year 2007 were not modified in connection with the adoption of the law.

The consolidated financial statements were prepared in compliance with the accounting practices determined by article 250 of Law 6404/76 and CVM Instruction No. 247 and subsequent amendments. The proportional consolidation method is used for investments in jointly-controlled investees, in accordance with the stockholder agreements. Consequently, the assets, liabilities and results of these investees are consolidated on a proportional basis, based on the ownership interest held by Company. In addition, the financial statements of Brazilian Mortgages and of the real estate funds that form part of the consolidation consider the adjustments to accounting practices resulting from Law No. 11638/07 to achieve the equalization of accounting practices among the group companies.

The consolidation of the balance sheet and income statement accounts corresponds to the horizontal sum of the balances of assets, liabilities, income and expenses, in proportion to the direct or indirect ownership interest held by Brazilian Finance & Real Estate S.A. in each subsidiary and real estate investment fund, according to their nature, complemented by the reclassification of negative goodwill to non-current liabilities (2007 - deferred income), and the elimination of unrealized results, balances of current accounts and other intercompany assets and/or liabilities. Revenues and expenses of the subsidiaries and real estate investment funds have been consolidated by the Company for the year or from the month of acquisition/constitution up to December 31, 2008.

The condensed balance sheets at December 31, 2008 and the statements of income of the subsidiaries and real estate investment funds included in the consolidated financial statements are presented below:

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Balance sheets at December 31, 2008

Description	BS	BM	BC	BMSR II	BM Sua Casa	Parque Cidade (SPE) (a)	Parque Segall/Lapa (SPE) (a)	Kiabin Invest.	Property Invest.	Premiar Realty (FII)	BM Asset (FII)	Excellence (FB)	Commercial Progressive (FII)
Assets													
Current assets	175,295	212,399	2,003	785	208	5,422	67,774	36	390	3	4	5	
Long-term receivables	282,885	201,797	1,191		100,310	26	5,342	147	274	507	513	53	
Investments		449		129,648	7	205,594		89,473	66,911	431	283		
Property and equipment	191	243	249		1,380	74	1						
Intangibles	2	63	15		124								
Total assets	456,373	414,951	3,458	130,413	102,030	211,116	73,117	89,856	87,575	941	800	58	
Liabilities													
Current liabilities	76,049	272,851	2,191	712	1,307	12,130	32,988	34	250	445	302	8	
Long-term liabilities	231,020	12,056				201,193	20,089	66,454	24,118				
Stockholders' equity	147,304	130,044	1,267	129,701	100,723	(2,207)	20,039	23,168	63,207	496	498	50	
Total liabilities and Stockholders' equity	456,373	414,951	3,458	130,413	102,030	211,116	73,117	89,856	87,575	941	800	58	

(a) Consolidated in proportion to the ownership interest held.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Statement of income for the period from consolidation inception to December 31, 2008

	BS	BM	BC	BANER II	BM Sudo Cass	Parque Cidade (SPE)	Segall Lapa (SPE)	Klablin Invest Plaza (FII) (a)	Hotel Maxinvest (FII) (a)	Property Invest (FII)	Premier Realty (FII)	BM Asset (FII)	Excel Invest (FII)	Commercial Progressive (FII)
Income from financial intermediation	86,487	48,632	438		1,101		5,904	22	3,005	159	47,873	41	44	1
Expenses on financial intermediation	(23,983)	(28,977)				(485)	(321)		(920)		(5,797)	(4)	(2)	
Gross profit from financial intermediation	45,504	20,655	438		1,101	(483)	5,583	22	2,185	159	41,776	37	42	1
Result from equity investments				15,018										
Other operating income (expenses)	(13,896)	1,390	7,682	(49)	(17,578)	(1,457)	(538)	(317)	(287)	(414)	(3,000)	(38)	(34)	(17)
Profit (loss) before taxation and profit sharing	31,808	22,045	8,131	14,876	(16,477)	(1,910)	5,045	(285)	1,898	(255)	38,778	(1)	8	(18)
Income tax and social contribution	(1,165)	(6,834)					(1,215)							
Deferred tax assets/liabilities	(8,988)	56												
Statutory profit sharing		(158)												
Net income - (loss)	21,575	15,256	6,250	14,876	(16,477)	(1,910)	(9,330)	(285)	1,898	(255)	38,778	(1)	8	(18)
Paid-up shares / quotas of the capital of investees	45,845,987	722,970	8,500,000	781,808	142,000,000	10,000	20,000	5,000	855,000	234,500	778,113	5,000	5,000	28,000
Common	361,485	8,500,000	8,500,000	380,904	10,000	10,000	10,000	5,000	855,000	234,500	778,113	5,000	5,000	28,000
Preferred Quotas	361,485			380,904	142,000,000									
Shares / Quotas of the capital held by the Company (directly and/or indirectly)	45,845,984	722,970	8,499,999	781,807	141,999,998	6,667	5,100	5,000	324,646	234,500	778,113	5,000	5,000	28,000
Common	391,485	8,499,999	8,499,999	380,904	10,000	6,667	5,100	5,000	324,646	234,500	778,113	5,000	5,000	28,000
Preferred Quotas	361,485			380,904	141,999,998									
Percentage of interest of the capital of investees held	100	100	100	100	100	66.67	25.50	100	49.57	100	100	100	100	100
Common	100	100	100	100	100	66.67	51.00	100	49.57	100	100	100	100	100
Preferred Quotas				100										

(a) The Company no longer holds, as from June 2008, a majority interest. Therefore, its balances are no longer included in the consolidated. The statements of income include the results for the period from January 1 to May 31, 2008.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Balance sheets at December 31, 2007

Description	BFRE Participações	BS	BM	BC	BMSR II	BIM Sua Casa	Parque Cidade (SPE) (a)	Klabin Segall Lapa (SPE) (a)	Property Invest. (FII)	Premier Premier Realty (FII)	Hotel Maximwest (FII)
Assets											
Current assets	33,078	156,671	130,001	6,710	612	60	3,270	47,577	196	1,624	507
Long-term receivables	237,610	238,062	66,596	2,648				108		55,522	27,818
Permanent assets	204,343	235	610	308	70,338	484	89,289	626	116,852	173,650	45,031
Total assets	475,031	394,968	197,207	9,666	70,950	524	92,559	48,311	117,048	230,796	73,356
Liabilities											
Current liabilities	23,293	152,845	116,944	2,282	515	505	2,263	11,578	29,350	32,368	10,268
Long-term liabilities	3,984	115,519	9,925				90,351	22,333	70,123		
Deferred income							(75)			63,212	
Stockholders' equity	447,754	126,624	70,338	7,384	70,435	19		14,400	17,575	135,216	63,088
Total liabilities and stockholders' equity	475,031	394,968	197,207	9,886	70,950	524	92,559	48,311	117,048	230,796	73,356

(a) Consolidated in proportion to the ownership interest held.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Statement of Income for the period from constitution / acquisition to December 31, 2007

	BFRE Participações	BS	BM	BC	BMSR II	BM Sua Casa	Parque Cidade (SPE)	Kubin Segall Ltda (SPE)	Top Equity (FB)	Comercial Progressivo (FB)	Property Invest. (FB)	Franses Realty (FB)	Hotel Manhuvas (FB)
Income from financial intermediation	50,810	46,785	15,727	56		33		7,901	28	5	10	48,384	1,191
Expenses on financial intermediation	(224)	(18,355)	(7,732)					(208)					
Gross profit from financial intermediation	50,576	28,580	7,975	56		33		7,693	28	5	10	48,384	1,191
Other operating income (expenses)	20,611	(8,872)	2,231	7,225	8,043	(3,675)	(65)	(892)	(1,065)	(2)	(35)	(3,024)	508
Profit (loss) before taxation and profit sharing	71,187	19,707	11,206	7,580	8,043	(3,642)	(65)	6,801	(77)	3	(25)	43,860	1,700
Income tax and social contribution	(10,040)	(11,230)	(3,121)	(1,538)				(806)					
Deferred tax assets	208	6,400	94										
Statutory profit sharing			(117)										
Net income (loss)	61,353(a)	14,877(b)	8,062(a)	6,022(a)	8,043(b)	(3,642)(a)	(85)(b)	5,995(c)	(77)	2	(25)	43,860	1,700
Paid-up shares / quotas of the capital of investees	40,016,378	44,400,000	455,256	8,499,999	479,905	7,000,000	10,000	20,000	1,005,000	2,604,700	177,000	1,333,113	655,000
Common	40,016,378	44,400,000	455,256	8,499,999	479,905	7,000,000	10,000	20,000	1,005,000	2,604,700	177,000	1,333,113	655,000
Preferred			227,628	8,499,999	239,953			5,100	55,000	52,094	177,000	1,333,113	334,534
Quotas			227,628	8,499,999	239,953			5,100	55,000	52,094	177,000	1,333,113	334,534
Percentage of interest of the capital of investees held	100	99,99999	100	99,99999	99,99958	100	66,67	25,5	5,47	2,00	100	100	51,07
Common	100	99,99999	100	99,99999	99,99958	100	66,67	25,5	5,47	2,00	100	100	51,07
Preferred													
Quotas													

(a) Result for the period from June 1 to December 31, 2007.

(b) Result for the period from October 1 to December 31, 2007.

(c) Result for the period from August 1 to December 31, 2007.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

A summary of the activities of the direct and indirect investees is presented below:

- (i) **Brazilian Securities Companhia de Securitização (BS)** - the objective of this company is the acquisition and securitization of mortgage and real estate credits, which comprises the purchase, sale and rendering of the respective guarantees in mortgage and real estate credits; the issue and placement of mortgage backed securities (CRIs) in the financial market, the issue of other credit securities and the rendering of services and other business activities related to transactions carried out in the secondary market of mortgages and real estate credits, in accordance with Law 9514, of November 20, 1997.

As part of the corporate restructuring of the Group, on June 20, 2006, the Company's stockholders approved the downstream merger of the parent company Ourinvest Securities Participações Ltda., whose only asset was the investment in BS. At the time of the merger, the goodwill recorded in the merged company, as well as the corresponding provision of R\$ 11,450, were recorded in accordance with the terms of CVM Instructions No. 319/99 and 349/01, without increasing the capital or stockholders' equity of BS. This goodwill is being appropriated to the results over 60 months.

- (ii) **Brazilian Capital Cia. de Gestão de Investimentos Imobiliários (BC)** - objectives: (a) direct or indirect acquisition of real estate assets in Brazil, on behalf of third parties, which may or may not be related to the Company, and/or funds, investment companies and/or any other similar investment instruments of real estate assets constituted by the Company within the territory of Brazil; (b) management and operation of real estate assets on behalf of third parties, which may or may not be related to the Company, and/or funds, created for investments in the real estate sector, in Brazil; (c) rendering of advisory and consulting services to third parties, which may or may not be related to the Company, and/or funds, created for investments in the real estate sector in Brazil; (d) investments in other companies, whether civil or commercial, national or foreign, as a partner, stockholder or quotaholder; (e) management of marketable security portfolios; (f) rendering of consulting and technical and financial structuring services to third parties to obtain funds from investors for real estate projects.
- (iii) **Brazilian Mortgages Companhia Hipotecária (BM)** - this company carries out the activities of a mortgage company, as defined by Resolution 2122/94 of the National Monetary Council (CMN).

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

The mergers of the parent companies BMSR Participações S.A. and Cadim Mortgages Participações Ltda. into Brazilian Mortgages Companhia Hipotecária were approved in 2005, in order to unify the activities and management, thereby optimizing administrative, commercial and financial costs and rationalizing the work, operations and targets of the organization, consequently enhancing profitability.

At the time of the merger, the goodwill recorded in the merged companies, as well as the corresponding provision in the amount of R\$ 17,564, were recorded in accordance with the terms of BACEN Circular No. 3017, without resulting in an increase in the capital or stockholders' equity of BM. This goodwill is being appropriated to the results over 60 months.

Concomitantly to the process mentioned above, BMSR II Participações S.A. was incorporated and became the owner of 100% of the capital of Brazilian Mortgages Companhia Hipotecária.

- (iv) BM Sua Casa Promotora de Vendas Ltda. - this company created in April 12, 2007, with the following objectives: (a) to intermediate business; promote sales to obtain financial resources and contract services, on its own behalf or on behalf of third parties, as well as receive amounts, perform extrajudicial collections, obtain and manage funds, subrogate, grant, sell, promote, transfer, free of charge or on a fee basis, rights and obligations to interested third parties; (b) provide services to receive and send loan and financing requests, as well as to research reference files; (c) invest, as a quotaholder or stockholder, in other companies.
- (v) Klabin Segall Lapa Empreendimentos Imobiliários S.A. - the objective of this company is the structuring, development and implementation of a venture in Rio de Janeiro.
- (vi) Parque Cidade Incorporações S.A. - this company is engaged in the sale of towers in office parks.

The reconciliation of the parent company's stockholders' equity to the consolidated is as follows:

	<u>2008</u>	<u>2007</u>
Parent company	484,615	447,270
Income from investments in debentures at the company recorded in permanent assets of the investee	(7,455)	(750)
Other	<u>(594)</u>	<u>(3)</u>
Consolidated	<u>476,566</u>	<u>446,517</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

3 Summary of the Significant Accounting Practices

- (a) Net income is determined on the accrual basis of accounting.
- (b) Securitization transactions are recorded and valued as follows:
 - (b.1) Mortgage Loans and Mortgage Backed Securities (CRIs) are recorded at cost of acquisition and funded amounts, respectively, plus earnings and/or accrued/incurred charges up to the balance sheet dates. In the case of securitization in which there is a clause requiring coverage of the net capital deficiency of the securitization, assets and liabilities are presented separately. In securitizations in which this clause does not exist, the net balance of the securitization is presented either in assets or liabilities, under "Securitized transactions", as applicable.
 - (b.2) The premiums/discounts on the acquisition of mortgage related receivables, as long as the respective Mortgage Backed Securities (CRIs) have not been issued, are recorded in results in accordance with the maturity term of the receivables. On the issue of Mortgage Backed Securities (CRIs) with the clause in which the Company is responsible for the coverage of a future net securitization capital deficiency, the premium/discount is amortized as described above. When the provisional registration with the Brazilian Securities Commission (CVM) is obtained and the Mortgage Backed Securities (CRI) are subsequently issued without that coverage clause, the premium/discount obtained on the acquisition of mortgage related receivables is fully recorded in the results.
 - (b.3) Premiums/discounts incurred on the issue of CRIs are allocated to results over the term of the CRIs if the Company has a coverage clause for net capital deficiency. With regard to issues without that clause, the premium/discount is recorded in results at the time of the placement of the CRIs.
- (c) The mortgage loans made by BM are recorded at their face values, plus interest and price-level indexation adjustments. The allowance for loan losses is recorded based on Resolution 2682 of the National Monetary Council, and is considered sufficient to cover the losses on the realization of the receivables, estimated based on an analysis of the outstanding transactions and the specific and overall risks of the portfolio.
- (d) Investments in subsidiaries are recorded on the equity method of accounting. The negative goodwill on investments will be amortized only on disposal of the investments.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements

at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (d.1) The investments in the consolidated financial statements, which mainly include rental properties, completed or under construction, owned by real estate investment funds and special-purpose partnerships (SPEs), are presented at cost of acquisition, net of depreciation calculated at the rate of 4% p.a., when applicable.
- (e) Permanent assets are stated at cost of acquisition, net of accumulated depreciation. Depreciation is calculated on the straight-line method, at annual rates established based on the economic useful lives of the assets.
- (f) Intangible assets include the goodwill on the mergers of BMSR Participações S.A. and Cadim Mortgages Participações Ltda. into BM, as well as the goodwill on the merger of Ourinvest Securities Participações Ltda. into BS, both net of the corresponding provision, which are being amortized over 60 months (Notes 2(iii) and 2(i)), and software in use, which is amortized within five years.
- (g) Liabilities are shown at their known or estimated amounts including, when applicable, accrued charges, monetary and exchange variations. The provision for income tax, when applicable, is calculated based on taxable income at the rate of 15%, plus an additional 10% on taxable income over a specific amount, and the social contribution on net income at the rate of 9%, in accordance with current legislation. Tax credits, basically arising from temporary differences, are recognized and presented in the consolidated financial statements.
- According to Provisional Measure No. 449/08, the changes in the criteria for recognition of income, costs and expenses computed for purposes of net income for the year, introduced by Law No. 11638/07 and articles 36 and 37 of the referred Provisional Measure, will not affect the calculation of taxable income of the legal entity choosing the Transition Tax Regime (RTT); therefore, it is necessary to consider, for tax purposes, the accounting criteria and methods effective at December 31, 2007. For accounting purposes, the tax effects of adopting Law No. 11638/07 are recorded in the corresponding deferred tax assets and liabilities.
- (h) The amounts related to contracts for the assignment of future real estate receivables, arising from the rental of properties of the Premier Realty and Property Invest investment funds, are being appropriated to results over the period of the related contracts and classified as amounts reducing the investment cost.
- (i) Financial instruments and marketable securities.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

(i) Classification and measurement

The companies classify their financial assets into the following categories: (i) loans and receivables and (ii) available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of their financial assets at the initial recognition.

Loans and receivables

This category includes the receivables which are non-derivative financial assets with fixed or estimated payments, not traded in an active market. They are included within current assets, except for those with maturity dates exceeding 12 months after the date when the balance sheet is issued (which are classified as non-current assets). The Companies' receivables refer to real estate receivables and the mortgage loans. The assets are recorded at amortized cost, based on the method of the effective rate of interest, which is equivalent to the market value on the balance sheet date.

Financial assets available for sale

The financial assets available for sale are non-derivative financial assets which are designated for that category or which are not classified in any other category. The financial assets available for sale are recorded at fair value. The interest on securities available for sale, calculated through the method of the effective rate of interest, is recognized in the statement of income as financial income. The portion corresponding to the variation in fair value, when applicable, is recorded against stockholders' equity, in the account "carrying value adjustments", and is recognized in the statement of income upon settlement or due to loss considered permanent (impairment).

(ii) Derivative instruments and hedge activities

Derivatives are initially recognized at fair value, at the date when a derivative agreement is executed, and are subsequently remeasured at fair value, with the variations in fair value being recorded in income or expense, except when the derivative is designated as a cash flow hedge instrument.

Although the Companies use derivatives for hedge purposes, they do not apply hedge accounting, since the derivatives do not meet the requirements for hedge accounting purposes.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

The fair value of derivative instruments is disclosed in Note 16.

(iii) Fair value

The fair value of publicly traded investments is based on the current purchase prices. For financial assets without an active market or which are not publicly traded, the Companies establish the fair value through valuation techniques. These techniques include the use of recent transactions contracted with third parties, the reference to other instruments which are substantially similar, the analyses of discounted cash flows and option pricing models based on information generated by the market and, in the absence thereof, the use of information generated by the management of the entity itself.

The Companies assess, at the balance sheet date, if there is objective evidence that a financial asset or a group of financial assets is recorded at an amount above its recoverable value (impairment). In case there is such evidence for the financial assets available for sale, the cumulative loss - measured as the difference between the cost of acquisition and the current fair value, less any loss due to impairment of that financial asset previously recognized in expense - is removed from the carrying value adjustment account in equity and recognized in the statement of income.

Available for sale securities acquired by BM are accounted for and evaluated in accordance with Circulars 3068 and 3082 of the Brazilian Central Bank.

The investments in real estate funds, with respect to which the Company maintains a significant influence over the management, are being presented in non-current assets - long-term receivables, in the financial statements of the Parent Company.

(i) Cash and cash equivalents includes cash and available bank deposits, as well as highly liquid short-term financial investments, which are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in value.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

**4 Marketable Securities and Derivative
Financial Instruments**

Marketable securities classified as available for sale are as follows:

	<u>Parent Company</u>	<u>Consolidated</u>	
	<u>2008</u>	<u>2008</u>	<u>2007</u>
Interbank Deposit Certificates		19,806	
Purchases with resale agreements (a)		18,468	83,462
Financial Treasury Bills (LFT)		59,486	20,438
Bank Deposit Certificates (CDB)	742	36,320	108,224
Mortgage Backed Securities (b)	15,994	27,355	16,891
Investment fund quotas (g)	65,759	61,468	11,811
Debentures (e)		33,433	8,064
Total unrestricted securities	82,495	218,062	165,428
Restricted Financial Treasury Bills (LFT)			10,721
Bank Deposit Certificates (CDB) (c)(d)		45,490	10,098
Mortgage Backed Securities (CRI) (d)		24,907	
Investment fund quotas (g)	116,130	47,727	
Total restricted securities	116,130	118,124	20,819
Derivative financial instruments (f)		9,347	
Grand total	198,625	383,807	269,709
Current	28,845	104,411	39,695
Long-term	169,780	279,396	230,014

(a) In 2007, R\$ 747 of this amount is pledged in guarantee of swap transactions (Note 16) and R\$ 82,519 is restricted for use as described in the IDB loan agreement (Note 13).

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (b) Includes unamortized premiums/discounts and a provision for loss on securities, when applicable.
- (c) Includes, at December 31, 2008, R\$ 6,907 (2007- R\$ 6,141) pledged as security upon acquisition of receivables, R\$ 1,088 (2007- R\$ 138) referring to funds from financial investments restricted to securitizations of receivables with a coverage clause for net capital deficiency, R\$ 14,202 (2007 - R\$ 2,766) linked to the payment of acquired portfolios of receivables, R\$ 10,535 pledged in guarantee of flow of receivables in a securitization transaction, and R\$ 12,758 with use restricted to the loan agreement with IDB (Note 13(a)). Includes, at December 31, 2007, R\$ 1,053 pledged in guarantee of swap transactions (Note 16).
- (d) At December 31, 2008, this corresponds to funds related to financial investments with restricted use according to the loan agreement with IDB (Note 13(a)).
- (e) Refer to the payment of debentures convertible into shares issued by the investee Parque Cidade, with final maturity in April 2011, bearing General Market Price Index (IGP-M) variation charges and interest of 11% p.a. BFRE is also obliged to subscribe and pay new debentures up to the amount of R\$ 110,267, according to the cash flow needs of the enterprise.
- (f) R\$ 9,347 refers to the differential receivable related to a derivative swap agreement (Note 16).
- (g) Investment fund quotas, in the consolidated:

	2008		2007	
	Cost	Market value	Cost	Market value
FII Comercial Progressivo II	5,969	7,967	5,225	7,646
FII Pátio Higienópolis	651	595		
FII Torre Almirante	102	125	102	184
FII Hotel MaxInvest	29,439	29,439		
FII Shopping West Plaza	32,529	32,529		
FII BCRE Fund I	21,500	22,748	5,500	5,486
BCRE Development Fund I FIP	15,792	15,792	984	984
	<u>105,982</u>	<u>109,195</u>	<u>11,811</u>	<u>14,300</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reals unless otherwise indicated

Financial investments at December 31, 2008 and 2007, have the following maturity dates:

Description	Rate	Maturity date up to
Interbank Deposit Certificates	13.20% p.a.	01.02. 09
Debentures	11% p.a. + IGPM*	04.01. 11
Purchases with resale agreements	102.50% of CDI	12.02. 09
Financial Treasury Bills (LFT)	Selic	09.07. 10
Bank Deposit Certificates (CDB)	98.80% to 102.5% of CDI	12.08. 11
Mortgage Backed Securities	8.81% to 12.61% p.a. + IGPM	10.13. 28

* General Market Price Index (IGPM)

The securities are in the custody of the Special System of Settlement and Custody (SELIC), the Clearing House for the Custody and Financial Settlement of Securities (CETIP) and the Brazilian Clearing and Depository Corporation (CBLC).

5 Mortgage Loans (Consolidated)

Lending operations comprise real estate financing for the conclusion of construction and the acquisition/remodeling of residential properties and are indexed to the Referential Rate (TR), plus interest rates that vary from 7.95% p.a. to 19.56% p.a. (2007 - 12.00% p.a. to 19.56% p.a.), or General Market Price Index (IGPM) plus rates from 7.95% p.a. to 19.56% p.a. (2007 - 7.95 % p.a. to 20.00% p.a.), or fixed rates from 10.43% p.a. to 17.00 % p.a. (2007- 10.43% p.a. to 15.00% p.a.); paid monthly/semiannually and with final maturity in January 2039.

(a) Analysis by maturity

	2008	2007
Overdue from 15 days	688	320
Overdue in up to 15 days and falling due in up to 90 days	35,138	25,640
Falling due between 91 and 360 days	146,808	76,059
Falling due after more than 360 days (a)	141,629	64,020
Total consolidated	<u>324,263</u>	<u>166,039</u>

(a) In 2007, includes a loan of R\$ 2,270 granted to Klabin Segall Lapa, with final maturity in September 2009, which earns interest at 12% p.a. plus the variation of the Referential Rate (TR).

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

(b) Analysis by risk level

The mortgage loans originating from BM are classified by risk level, and the provision for loan losses is recorded in accordance with the Brazilian Central Bank regulations, as follows:

Risk level	2008			2007			
	Balances	Provision required (1)	Additional provision(2)	Total provision	Balances	Provision	Provision - %
AA	234,825				122,964		
A	59,411	(298)	(16)	(314)	19,447	(97)	0.5
B	8,304	(83)	(4)	(87)	14,179	(142)	1.0
C	20,778	(623)	(34)	(657)	6,413	(193)	3.0
D	478	(48)	(2)	(50)	299	(30)	10.0
E	371	(111)	(6)	(117)	86	(26)	30.0
F					60	(30)	50.0
G	15	(10)	(1)	(11)	95	(66)	70.0
H	81	(81)		(81)	226	(226)	100.0
	<u>324,263</u>	<u>(1,254)</u>	<u>(63)</u>	<u>(1,317)</u>	<u>163,769</u>	<u>(810)</u>	
Mark to market	600						
Mortgage loans	<u>324,863</u>	<u>(1,254)</u>	<u>(63)</u>	<u>(1,317)</u>	<u>163,769</u>	<u>(810)</u>	

(1) Minimum provision required according to the parameters of BACEN Resolution No. 2682.

(2) Additional provision recorded and allocated at each risk level so as to reflect possible stress situations within the economic context.

6 Securitized Transactions (Consolidated)

As mentioned in Note 3(b.1), these represent all the balances arising from the process of securitization of receivables in accordance with Law 9514/97, for which the Company has no coverage clause for net capital deficiency.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

<u>Real estate receivables</u>	<u>Final maturity INDEX</u>	<u>INTEREST% p.a.</u>	<u>2008</u>	<u>2007</u>
			<u>2,474,407</u>	<u>1,791,813</u>
Tranches 3 and 4	10.01.10 IGPM	12.00	167	209
Tranche Hospital 13 to 17	12.13.12 INPC*	12.00	8,700	9,082
Tranche Brascan	07.10.10 IGPM	12.00	-	1,449
Tranches 22 and 23	09.10.13 IGPM	12.68	-	353
Tranches 24 and 25	05.05.09 IGPM	12.68	-	190
Tranches 26 and 27	04.01.14 IGPM	12.00 to 12.68	758	1,516
Tranches 28 and 29	07.01.14 IGPM	12.00 to 12.68	2,078	3,096
Tranches 30 and 31	10.01.14 IGPM	12.00 to 12.68	4,103	6,461
Tranches 34 and 35	10.11.25 IPCA**	9,0449	1,115,090	1,078,327
Tranches 36 and 37	06.10.15 IGPM	12.00 to 12.68	3,465	4,649
Tranches 40 and 41	08.01.15 IGPM	12.00 to 12.68	4,861	7,268
Tranche 46	06.30.16 IGPM	11.21	89,180	87,710
Tranches 47 and 48	11.10.14 IGPM	12.00	2,410	5,148
Tranches 49 and 50	01.01.16 IGPM	12.00 to 12.68	13,512	19,613
Tranches 51 and 52	12.02.18 IGPM	11.67	19,425	32,075
Tranches 53 and 54	05.05.16 IGPM	12.00	3,910	5,304
Tranche 56	10.20.18 TR	11.00	53,757	56,524
Tranche 57	12.13.12 IGPM	12.00	4,737	10,382
Tranches 58 and 59	11.05.26 IGPM	12.00 to 12.68	11,468	17,817
Tranches 60 and 61	11.05.27 IGPM	12.00 to 12.68	13,171	18,644
Tranches 64 and 65	11.13.21 IPCA	11.17	61,596	52,415
Tranche 66	04.05.11 IPCA	11.00	17,338	22,284
Tranches 67 and 68	01.10.28 IGPM	12.68	10,157	11,720
Tranches 69 and 70	09.30.21 TR	8.64 to 16.66	64,960	85,144
Tranches 71 and 72	05.01.27 IGPM	12.00 to 12.68	11,612	15,235
Tranche 73	04.01.17 IGPM	10.25	35,577	64,631
Tranches 74 and 75	08.02.27 IGPM	12.00 to 12.68	17,346	24,848
Tranche 76	05.05.15 IGPM	12.00	8,053	11,804
Tranche 77	02.02.27 IGPM	12.00 to 12.68	9,140	14,060
Tranche 78	12.10.27 IGPM	12.00 to 12.68	12,581	21,782
Tranche 79	12.20.17 TR	10.00	100,891	102,073
Tranche 80	04.24.19 IGPM	8.40	15,428	
Tranche 81	04.24.19 IGPM	8.40	20,702	
Tranche 82	04.24.19 IGPM	8.40	20,709	
Tranche 83	04.24.19 IGPM	8.40	20,762	
Tranche 85	09.01.24 IGPM	12.68	10,323	
Tranches 86 and 87	10.10.15 IGPM	12.00	17,555	
Tranche 88	09.01.26 IGPM	12.00 to 12.68	14,404	

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reals unless otherwise indicated

Real estate receivables	Final maturity INDEX	INTEREST% p.a.	2008	2007
Tranches 89 and 90	07.10.27 IGPM	12.22	29,595	
Tranche 91	02.15.22 TR	10.00	29,120	
Tranches 92 and 93	12.28.30 IGPM	12.00 to 12.68	6,399	
Tranche 94	02.28.11 TR	12.16	19,225	
Tranche 97	08.05.18 TR	10.50	9,930	
Tranches 98 and 99	03.10.38 IGPM	12.00 to 12.68	11,344	
Tranche 100	07.10.20 TR	10.00	303,701	
Tranche 101	07.28.18 IGPM	8.89	5,342	
Tranche 104	08.13.18 TR	10.70	36,990	
Tranche 105	08.10.17 IGPM	12.00 to 12.68	15,644	
Tranche 106	09.10.28 IGPM	9.75 to 17.23	9,180	
Tranche 107	09.18.23 TR	10.20	21,598	
Tranche 108	09.10.28 IGPM	10.00	28,194	
Tranches 109 and 110	02.28.22 IGPM	11.04 to 14.24	44,405	
Tranche 111	03.29.23 IGPM	7.67 to 18.00	42,705	
Tranche 112	03.29.23 IGPM	7.67 to 18.00	25,219	
Tranche 113	02.13.24 IGPM	11.73	15,890	

* National Consumer Price Index (IPC)

** Amplified Consumer Price Index (IPCA)

Mortgage Backed Securities	Final maturity INDEX	INTEREST % p.a. Senior	INTEREST % p.a. Junior	2008	2007
				(2,501,309)	(1,807,302)
Series 3 and 4	03.13.11 IGPM		12.00	(521)	(450)
Series 13 to 17	12.15.12 INPC	12.00		(8,692)	(9,072)
Series 20 and 21	08.13.10 IGPM		12.00		(1,032)
Series 22 and 23	10.03.13 IGPM		12.00		(192)
Series 24 and 25	06.13.09 IGPM		12.00		(670)
Series 26 and 27	05.13.14 IGPM		12.00	(854)	(1,526)
Series 28 and 29	10.13.14 IGPM	10.00	12.00	(1,603)	(3,000)
Series 30 and 31	02.13.15 IGPM	9.50	12.00	(4,425)	(7,066)
Series 34 and 35	10.11.25 IPCA	9.03	9.03	(1,114,841)	(1,078,131)
Series 36 and 37	08.13.15 IGPM	10.45	12.00	(4,237)	(5,631)
Series 40 and 41	09.15.15 IGPM	10.37	12.00	(5,140)	(7,405)
Series 46	07.01.16 IGPM	11.21		(91,020)	(69,469)
Series 47 and 48	04.13.16 IGPM	10.04	12.00	(2,320)	(5,566)
Series 49 and 50	03.13.16 IGPM	10.76	12.00	(14,365)	(21,568)
Series 51 and 52	03.28.15 IGPM	11.53	11.68	(26,877)	(34,455)

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

Mortgage Backed Securities	Final maturity	INDEX	INTEREST		2008	2007
			% p.a. Senior	% p.a. Junior		
Series 53 and 54	06.13.16	IGPM	9.94	12.00	(3,732)	(5,314)
Series 56	10.20.18	TR	11.00		(58,531)	(58,669)
Series 57	01.13.13	IGPM	11.00		(4,258)	(10,123)
Series 58 and 59	12.13.16	IGPM	10.88	12.00	(11,516)	(18,726)
Series 60 and 61	01.13.15	IGPM	10.89	11.00	(13,026)	(18,635)
Series 64 and 65	11.13.21	IPCA	11.00	12.00	(61,221)	(52,374)
Series 66	04.13.11	IPCA	10.52		(17,232)	(22,190)
Series 67 and 68	02.13.28	IGPM	11.47	12.68	(10,627)	(12,775)
Series 69 and 70	03.13.22	TR	10.33	16.00	(68,239)	(88,136)
Series 71 and 72	06.13.22	IGPM	10.38	12.00	(13,214)	(16,100)
Series 73	05.05.17	TR	10.15		(28,361)	(61,483)
Series 74 and 75	05.13.22	IGPM	10.85	12.00	(19,070)	(26,325)
Series 76	06.13.15	IGPM	9.98		(8,417)	(12,907)
Series 77	11.13.21	IGPM	11.25		(10,269)	(14,582)
Series 78	09.13.24	IGPM	11.26		(13,493)	(21,659)
Series 79	12.20.17	TR	9.95		(100,624)	(102,071)
Series 80	04.24.19	TR	10.80		(14,574)	
Series 81	04.24.19	TR	10.80		(19,817)	
Series 82	04.24.19	TR	10.80		(20,485)	
Series 83	04.24.19	TR	10.80		(20,549)	
Series 85	10.13.24	IGPM	11.38		(11,097)	
Series 86 and 87	10.13.15	IGPM	9.56	11.18	(21,819)	
Series 88	03.13.23	IGPM	10.87		(14,977)	
Series 89 and 90	08.13.27	IGPM	11.37	12.00	(30,260)	
Series 91	02.15.22	TR	10.00		(29,120)	
Series 92 and 93	03.13.28	IGPM	8.81	10.80	(6,851)	
Series 94	06.05.11	TR	12.05		(19,296)	
Series 97	06.05.18	TR	10.50		(9,930)	
Series 98 and 99	11.13.16	IGPM	9.61	11.64	(12,545)	
Series 100	07.10.20	TR	10.00		(303,701)	
Series 101	07.28.18	TR	10.30		(5,273)	
Series 104	08.13.18	TR	10.52		(36,993)	
Series 105	10.13.17	IGPM	10.72		(16,581)	
Series 106	10.13.28	IGPM	11.71		(9,288)	
Series 107	09.21.23	TR	10.20		(21,598)	
Series 108	09.13.28	IGPM	10.00		(28,194)	
Series 109 and 110	03.10.23	IGPM	11.71	11.45	(44,936)	
Series 111	11.13.20	IGPM	11.07		(47,759)	
Series 112	11.01.13	IGPM	12.61		(24,907)	
Series 113	02.13.24	IGPM	10.81		(16,234)	

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

	<u>2008</u>	<u>2007</u>
Net	<u>(26,902)</u>	<u>(15,489)</u>
Cash and banks	5,903	2,666
Financial investments (a)	50,896	28,168
Derivative financial instruments - Swap (Note 16)	(2,021)	
Assets not for own use (BNDU)	285	927
Amounts receivable for the sale of BNDU	<u>646</u>	<u>670</u>
Total securitized transactions (long-term receivables)	<u>28,807</u>	<u>16,942</u>

At December 31, 2008 and 2007, all the series issued had positive net equity. The total amount of mortgage related receivables that were past due for more than 90 days at December 31, 2008 was R\$ 7,146 (2007 - R\$ 2,884).

(a) Refer to financial investments in Bank Deposit Certificates (CDBs) made by the Company with funds from the amortization of receivables and which have not yet been transferred to the holders of Junior CRIs due to their grace period.

7 Mortgage Related Receivables (Consolidated)

The mortgage related receivables portfolio is comprised of:

	Final maturity	INDEX	INTEREST % p.a.	<u>2008</u>	<u>2007</u>
Tranches 9 and 10 (a)	08.28.13	IGPM	11.38 to 12.00	920	1,607
Tranches 95 and 96 (a)	08.30.27	TR	9.00	40,015	
CCI - BS (b)	06.20.38	INCC or IGPM or TR	Up to 19.56	<u>134,443</u>	<u>234,652</u>
				<u>175,378</u>	<u>236,259</u>
Unamortized accumulated discount				<u>(4,782)</u>	<u>(4,142)</u>
Current				32,294	120,141
Long-term receivables				<u>138,302</u>	<u>111,976</u>
				<u>170,596</u>	<u>232,117</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

(a) These tranches have already been securitized (Note 12).

(b) This includes receivables acquired during the first quarter of 2008 not yet securitized as collateral for CRIs, and the acquisition value will be paid to the sellers substantially up to the first quarter of 2009. These liabilities are recorded in "Liabilities for the acquisition of receivables".

These represent mortgage related receivables purchased in accordance with Law 9514/97, which regulates the Real Estate Financial System.

The discount on the purchase of mortgage related receivables has been recognized in income in accordance with the accrual basis of accounting, taking into account the terms for the maturity of the receivables.

The contracts for mortgage related receivables have a fiduciary lien clause on the property. Management believes that this guarantee is sufficient to cover probable losses arising from the default of borrowers. No additional provision has therefore been recorded.

8 Other Receivables

Other receivables consist of:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Accounts receivable from property sales and rentals (a)			14,085	11,921
Tax credits (b)	11,198		13,135	6,982
Taxes and contributions to be offset	12,266		29,735	27,324
Negotiation of receivables (c)			18,237	
Dividends receivable from subsidiaries (Note 10)	7,103	10,699		
Other (d)	<u>1,799</u>		<u>10,744</u>	<u>10,206</u>
	<u>32,366</u>	<u>10,699</u>	<u>85,936</u>	<u>56,443</u>

(a) The balance of accounts receivable from the sale of properties, maturing up to May 2010, bears INCC indexation up to the completion of the property and, thereafter, IGP-M + 12% p.a.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (b) Mainly comprises tax credits on Income tax and social contribution temporary differences, recorded by the subsidiaries.
- (c) Principally refers to amounts receivable as a result of the trading of real estate receivables with assignor of credits.
- (d) This substantially includes, in the consolidated, amounts receivable resulting from the services rendered by BM, BC and BS, in the amount of R\$ 3,833 (2007 - R\$ 5,700), advances to suppliers totaling R\$ 1,560 and receivables for the sale of other assets amounting to R\$ 621.

9 Other Assets (Consolidated)

Assets recovered due to default of securitized mortgage related receivables, with a clause of coverage for a possible net capital deficiency by BS, and resulting from loans granted by BM, presented at the residual book values of the related real estate financing, and adjusted to market or realizable values of the corresponding assets, when applicable.

10 Investments in Subsidiaries

The investment in the direct subsidiaries and the movement in the balance during 2008 and the period from June 1 to December 31, 2007 are as follows:

Company	Interest - %	2008				
		Net Income (loss)	Adjusted Stockhold- ers' equity	Investment	Negative goodwill	Equity In earnings
BMSR II Participações S.A.	100	14,976	129,701	130,097	(3,438)	15,372
Brazilian Securities Cla. de Securitização	100	21,575	147,304	147,304	(1,679)	21,575
BM Sua Casa Promotora de Vendas	100	(18,477)	100,723	100,723		(18,477)
Brazilian Capital Cla. de Gestão Invest. Imobiliário	100	6,250	1,267	1,267		6,250
Klabin Segall Lapa Empreend. Imob. S.A.	25.5	3,830	20,039	5,035		1,363
Parque Cidade Incorporações S.A. Parque Cidade - allowance for losses	66.87					(622)
				<u>384,426</u>	<u>(5,117)</u>	<u>27,481</u>

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reals unless otherwise indicated

					2007
<u>Company</u>	<u>Interest - %</u>	<u>Net income</u>	<u>Adjusted stockholders' equity</u>	<u>Investment</u>	<u>Equity in earnings</u>
Brazilian Finance & Real Estate Participações S.A.(c)	100.00	61,353	447,764	<u>447,764</u>	<u>61,353</u>
				<u>447,764</u>	<u>61,353</u>

								2008
	<u>BFRE Partic.</u>	<u>BS</u>	<u>BMSR II</u>	<u>BC</u>	<u>BM Sua Casa</u>	<u>Klabin Segall Lapa</u>	<u>Parque Cidade</u>	<u>Total</u>
At December 31, 2007	<u>447,764</u>							<u>447,764</u>
Equity in the results	<u>447,764</u>							<u>447,764</u>
Acquisitions/payment of capital		4,229	45,000	(7,500)	117,181			<u>158,910</u>
Merger	<u>(447,764)</u>	124,945	67,000	7,584	19	4,320	(50)	<u>(243,946)</u>
Equity in the results		21,575	15,372	6,250	(16,477)	1,363	(622)	27,481
Dividends allocated (d)		(5,124)	(713)	(5,067)				(10,904)
Amortization of goodwill						(648)		(648)
Sale							672	672
At December 31, 2008	<u>145,625</u>	<u>126,659</u>	<u>1,267</u>	<u>100,723</u>	<u>5,035</u>			<u>379,309</u>
Equity in the results		147,304	130,097	1,267	100,723	5,035		384,426
Goodwill (negative goodwill), unamortized		(1,679)	(3,438)					(5,117)

		2007
		BFRE Participações
Acquisitions in the period		<u>528,622</u>
Cost		397,110(a)
Goodwill		131,512(b)
Amortization of goodwill against goodwill reserve		(131,512)(b)
Equity in earnings		61,353
Dividends declared		<u>(10,699)</u>
Balance at December 31, 2007		<u>447,764</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (a) R\$ 200,540 of this amount results from the Company's capital increase through the transfer of shares of the investee (Note 15).
- (b) In June 2007, the Company purchased 49.5% of the capital of the investee from one of its stockholders for R\$ 328,082, and the internal goodwill generated by the transaction was fully amortized against a specific capital reserve (Note 15).
- (c) Financial information on the investees of BFRE Participações, as well as their operating activities, are presented in Note 2.
- (d) Of the total amount of R\$ 5,067 allocated by the subsidiary BC in 2008, R\$ 3,801 was advanced during 2008 and R\$ 1,266 is recorded as "Other receivables - Dividends receivable from subsidiary (Note 8).

11 Collateralized Mortgage Notes (Consolidated)

(a) Resources from mortgage notes (Consolidated)

Mortgage notes, which mature through November 2009, are restated by the Referential Rate (TR), plus interest rates that vary from 9.60% p.a. to 12.09% p.a. (2007 - 8.70% p.a. to 10.20% p.a.).

(b) Resources from housing loan bills (Consolidated)

Housing loan bills, falling due through December 2011, are restated by the General Market Price Index (IGPM) plus interest rates varying from 1.55% p.a. to 10.25% p.a. (2007 - 4.28% p.a. to 9.80% p.a.) or the TR, plus interest rates that vary from 8.78% p.a. to 11.61% p.a. (2007 - 8.36% p.a. to 10.00% p.a.), or by CDI percentages of 88% to 97% (2007- 91% to 94%).

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

12 Mortgage Backed Securities - CRIs (Consolidated)

Mortgage backed securities:

	Final maturity	INDEX	INTEREST % p.a. Senior	INTEREST % p.a. Junior	2008	2007
Series 9 and 10	6.13.12	IGPM	12.00	12.00	4,064	3,954
Series 95 and 96	9.01.27	TR	6.59	15.63	41,007	
					<u>45,071</u>	<u>3,954</u>
Current					4,191	318
Long-term liabilities					<u>40,880</u>	<u>3,636</u>
					<u>45,071</u>	<u>3,954</u>

13 Borrowings

Borrowings include:

	Parent Company		Consolidated	
	2008	2007	2008	2007
IDB (a)			181,207	83,954
Loan (b)			5,034	6,845
Loan from TPG (c)	5,683		5,683	3,984
Banco ABC Brasil (d)			4,006	7,015
Banco Daycoval (e)		1,121		1,121
Banco ABN Amro (f)	51,160		51,160	
Banco Itaú BBA (g)	52,033		52,033	
	<u>108,876</u>	<u>1,121</u>	<u>299,123</u>	<u>102,919</u>
Short-term	103,193	1,121	113,770	11,256
Long-term	<u>5,683</u>		<u>185,353</u>	<u>91,663</u>
	<u>108,876</u>	<u>1,121</u>	<u>299,123</u>	<u>102,919</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (a) Credit line agreement obtained on March 24, 2006 by BS from the Inter-American Development Bank (IDB), in the amount of up to US\$ 75 million. This is a seven-year credit line, to be used in the first five years and paid in the two subsequent years, with applicable interest rates corresponding to the LIBOR rate, plus 1.75% p.a., and it exclusively aims to finance the acquisition of mortgage instruments (residential and commercial) and commercial rental instruments, for subsequent issuance and placement of Mortgage Backed Securities (CRIs) backed by these instruments. At December 31, 2008, part of the credit line, in the amount of US\$ 75 million (2007 - US\$ 47 million), has been drawn down and R\$ 102,575 (Note 4(c) and (d)) (2007 - R\$ 82,519 (Note 4(a)) of this amount was deposited in a restricted account.
- (b) In 2008, it refers to a loan proportional to the ownership interest held in Klabin Segall Lapa Empreendimentos Imobiliários, obtained from Banco ABN, bearing interest of 0.8355% p.m., maturing on October 24, 2009. In 2007, in the consolidated, it refers to agreements executed by BS with Investors, in the original amount of R\$ 8,368, considering the General Market Price Index (IGPM) +1% p.m., for the purchase of specific portfolios of credit, which will be subsequently securitized, and the resulting CRIs will be delivered to those investors as payment.
- (c) It refers to a loan agreement obtained in September 2006, from one of the stockholders of the foreign investor, TPG Axon BFRE Holding, in the amount of US\$ 2 million, with maturity in September 2011 and interest of 4% + LIBOR.
- (d) In 2008, this refers to a loan obtained from Banco ABC Brasil S.A., on June 30, 2008 to pay for the acquired portfolios of real estate receivables, remunerated by CDI, plus 7.9562% p.a., with maturity on January 12, 2009. In 2007, it refers to a loan obtained in December 2007, to pay for the acquired portfolios of real estate receivables, remunerated by CDI, plus 3.0416% p.a., maturing in February 2008.
- (e) In 2007, this refers to a Bank Credit Note, maturing on March 10, 2008 with remuneration equivalent to CDI + 0.5% p.m.
- (f) Refers to a Bank Credit Note, obtained on August 8, 2008, remunerated by the CDI, plus 2.65 % p.a., maturing on August 3, 2009.
- (g) This refers to Bank Credit Notes, remunerated by the CDI, plus rates of 2.50% p.a. to 3.98% p.a., maturing up to January 28, 2009.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

14 Other Liabilities

Other liabilities comprise the following:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Taxes and contributions payable	7,782		22,673	42,337
Amounts payable for the purchase of properties (Note 18(j))			127,913	170,914
Dividends payable (Note 15)	5,971	10,072	5,972	10,072
Other (a)	<u>3,852</u>	<u>82</u>	<u>22,684</u>	<u>5,076</u>
	<u>17,605</u>	<u>10,154</u>	<u>179,242</u>	<u>228,399</u>
Short-term	17,605	10,154	51,804	121,284
Long-term			127,438	107,115

(a) In consolidated, it refers mainly to credits to be released by the subsidiary BM in the amount of R\$ 4,607, provisions for guarantees of R\$ 3,336 (Note 18 (d)) and trade accounts payable in the amount of R\$ 3,266.

15 Stockholders' Equity

The Company's capital comprises 413,905,931 (2007 - 399,545,062) common shares, with no par value. The Company may increase its capital up to the limit of R\$ 10 billion, upon approval of the Board of Directors, regardless of the decision of the general meeting.

During the year ended December 31, 2008, capital increases amounting to R\$ 23,917 took place, through the issue of 14,360,869 common shares, as approved by the Stockholders' Extraordinary General Meetings held on April 28, October 30 and December 29, 2008.

On March 8, 2007, the General Meeting approved a capital increase of R\$ 31, thereby increasing the Company's capital from R\$ 1,183 to R\$ 1,214, through the private issue of 31,076 preferred shares, with no par value, paid-up in cash at the time of the subscription,

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

R\$ 26 of which through an advance for future capital increase and R\$ 5 from accounts payable to the former stockholder. On the same date, the stockholders decided to reduce capital by R\$ 1,212, without changing the number of shares, and the funds were mainly used to offset the accumulated loss on the date of the event.

At the Extraordinary General Meeting held on May 30, 2007, the stockholders decided to increase the Company's capital by R\$ 15, through the issue of 16,067 new common shares, paid up with a credit that the subscriber had with the Company.

At an Extraordinary General Meeting held on June 18, 2007, the stockholders approved the conversion of all preferred shares into common shares. Consequently, the Company's capital started to comprise 1,230,024 common shares.

At an Extraordinary General Meeting held on June 27, 2007, the stockholders agreed to increase the Company's capital through the issue of 200,540,334 common shares, in the total amount of R\$ 200,540. These shares were subscribed and paid up by Ourinvest Real Estate Holding S.A. through the transfer of 20,208,266 nominative common shares, with no par value, which represented 50.49999% of the shares that comprise the capital of Brazilian Finance & Real Estate Participações S.A., appraised at their net book value.

At an Extraordinary General Meeting held on June 28, 2007, the stockholders approved a capital increase through the issue of 197,774,704 common shares, all of which were nominative, in a total of R\$ 329,381, of which: (a) R\$ 197,775 was allocated to the capital account, and (b) R\$ 131,606 was used to establish a specific capital reserve for the acquisition of investments. The shares were fully subscribed and paid up in cash by TPG-Axon BFRE Holding, LLC.

The Company's by-laws prescribe the distribution of minimum mandatory dividends of 18% of net income, after appropriation to the legal reserve. For 2008, management is proposing to the stockholders the payment of a minimum mandatory dividend, in accordance with the by-laws, in the amount of R\$ 5,971 (2007 - R\$ 10,072), as well as the retention of the remaining net income for reinvestment in the activities of the Company, based on the capital budget approved by management.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Also, in 2008, the Extraordinary General Meetings held on October 30 and December 29, 2008 approved the payments of interest on own capital to Company's stockholders in the amount of R\$ 17,642.

16 Financial Instruments (Consolidated)

The financial investments are carried out at terms and rates compatible with those observable in the market, restated up to the balance sheet/trial balance dates, and their book balances are represented by their market values (fair values), as described in Note 3(I).

The issue and placement of the CRIs in the financial market are carried out in accordance with the available portfolio of the real estate receivables portfolio, which results in the matching of the operations.

The CRIs are classified in accordance with the parameters established by the Moody's, Fitch or Austin rating agencies, with a fiduciary lien clause and structure of subordination and contingency fund, which are guarantees considered to be sufficient by management to cover possible defaults of the debtors. The interest rates practiced in the real estate receivables portfolios and CRIs are compatible, and the valuation of the portfolios at market value is consistent with the terms and rates practiced on the balance sheet/trial balance dates.

The Company's policy is to structure its operations so as to maintain the balance between assets and liabilities aligned with current financial market conditions.

The measurement of the market value (fair value) of the derivative financial instruments is based on the pricing models developed by management, which take into account assumptions widely accepted by the market, and consider the economic environment of the valuation period. In general, instruments with measurement based on market indicators have as parameters, for purpose of determination of their fair values, prices, rates and indices disclosed by official agencies and institutions, including the Futures and Commodities Exchange (BM&F), the National Association of Open Market Institutions (ANDIMA) and the Central Bank of Brazil (BACEN). However, for instruments with measurement not based on market indicators, internal models are used, considering the characteristics of the products, always trying to reflect the actual conditions for settlement of the assets. It is important to note that such analyses are based on conditions and prices applicable on the valuation date and therefore, considering the volatility of indices used, and also market conditions, realizable values may significantly differ from estimates.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

The Company acquired from financial institutions, in the over-the-counter market, derivative financial instruments comprising swap contracts, the notional amounts and respective differentials payable of which are shown below. Such swap contracts were mainly acquired to hedge the Company's operations and will be held to maturity.

The determination of the market value (fair value) by the Company was made with the direct participation of the Market Risk area, which adopted as one of its main assumptions the use of rates and indices disclosed by BM&F and BACEN, as applicable.

(a) Foreign exchange economic hedge contracts acquired (IDB funding - Note 13(a) and Note 4).

									2008
Maturity	Index for purchaser	Index for seller	Notional amount	Amount (payable)/receivable (curve)	Fair value	Amount (paid)	Amount received	Results	
Up to 05.15.08	USD + 6.70% p.a.	IGPM + 10.70% p.a.	66,742	1,735	2,642			2,642	
Up to 05.15.09	USD + LIBOR + 1.75% p.a.	100.03% of CDI	65,279	1,135	1,526			1,526	
Up to 05.15.09	USD + LIBOR + 1.75% p.a.	IGPM + 8.65% p.a.	7,980	169	538		1,802	2,339	
Up to 11.16.09	USD + 4.5775% p.a.	IGPM + 4.6272% p.a.	8,898	2,918	3,253		66	3,319	
Up to 11.16.09	USD + LIBOR + 1.75% p.a.	IGPM + 4.60% p.a.	63,845				23,176	23,176	
Up to 11.17.09	USD + LIBOR + 1.75% p.a.	IGPM + 8.85% p.a.	47,928			(216)	13,253	13,038	
Up to 05.16.09	USD + 4.47% p.a.	IGPM + 6.50% p.a.	6,187			(411)		(473)	
Up to 05.15.08	LIBOR + 1.7875% p.a.	7.9775% p.a.	6,187			(44)		(32)	
Up to 05.14.08	LIBOR + 1.7875% p.a.	USD + 7.8865% p.a.	61,958			(687)		(674)	
Up to 05.14.08	USD + 7.65% p.a.	IGPM + 6.50% p.a.	61,958			(7,206)		(6,989)	
Up to 05.13.08	USD + 7.1889% p.a.	IGPM + 10.30% p.a.	6,870			(1,189)		(996)	
Up to 05.14.08	USD + 7.1087% p.a.	IGPM + 13.90% p.a.	6,189			(888)		(838)	
				5,947	8,158	(10,747)	38,298	38,337	
									2007
Maturity	Index for purchaser	Index for seller	Notional amount	Amount (payable)/receivable (curve)	Fair value	Amount (paid)	Amount received	Results	
Up to 05.15.08	USD + 4.47% p.a.	IGPM + 6.50% p.a.	6,187	62	41			62	
Up to 06.15.08	LIBOR + 1.7875% p.a.	7.9775% p.a.	6,187	(11)	(47)			(11)	
Up to 05.14.08	LIBOR + 1.7875% p.a.	USD + 7.8865% p.a.	61,958	(113)	(431)			(113)	
Up to 05.14.08	USD + 7.65% p.a.	IGPM + 6.50% p.a.	61,958	(217)	303			(217)	
Up to 05.13.08	USD + 7.1469% p.a.	IGPM + 10.30% p.a.	6,870	(203)	121	(1,508)		(1,709)	
Up to 05.14.08	USD + 7.1087% p.a.	IGPM + 13.90% p.a.	6,189	(147)	80	(2,378)		(2,256)	
Up to 05.14.08	USD + 7.6347% p.a.	IGPM + 9.87% p.a.	66,189			(11,330)		(11,330)	
Up to 05.14.08	USD + 7.6347% p.a.	IGPM + 9.87% p.a.	2,362			(360)		(360)	
Up to 06.16.08	USD + 5.80% p.a.	IGPM + 7.95% p.a.	6,923			(1,342)		(1,342)	
Up to 05.15.08	USD + LIBOR + 1.75% p.a.	IGPM + 8.25% p.a.	7,233			(828)		(699)	
Up to 11.16.07	USD + 8.2527% p.a.	IGPM + 13.38% p.a.	278			(130)		(120)	
Up to 05.15.07	USD + LIBOR + 1.75% p.a.	IGPM + 13.38% p.a.	261			(37)		(28)	
				(629)	87	(17,911)		(18,121)	

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

- (b) Contracts acquired as economic hedges for securitized transactions (Swaps of series 80, 81, 82, 83 and 101 (Note 6)).

2008								
Maturity	Index for purchaser	Index for seller	Notional amount	Amount (payable)/receivable (curve)	Fair value	Amount (paid)	Amount received	Results
Up to 04.24.19	TRD + 10.80% p.a. (*)	IGPM + 8.40% p.a.	20,079	(1,973)	(79)			(1,973)
Up to 07.26.18	TRD + 10.30% p.a.	IGPM + 8.79% p.a.	6,000	(48)	27			(48)
				<u>(2,021)</u>	<u>(51)</u>			<u>(2,021)</u>

(*) TRD - Daily Interest Reference Index

- (c) In the specific cases described below, the Company engaged exceptionally in transactions involving derivatives, as approved by its Executive Board, that enabled the sale of CRIs to a local investor, with a view to developing this market internally (Note 4).

2008								
Maturity	Index for purchaser	Index for seller	Notional amount	Amount (payable)/receivable (curve)	Fair value	Amount (paid)	Amount received	Results
Up to 08.13.10	IGPM + 10.15% p.a.	TRD + 18.50% p.a.	531	(45)	(10)	(62)		90
Up to 10.13.14	IGPM + 10.9711% p.a.	TRD + 14.80% p.a.	2,042	72	431	(23)	22	584
Up to 02.13.13	IGPM + 9.70% p.a.	TRD + 16.00% p.a.	4,570	(174)	767	(105)		1,410
				<u>(147)</u>	<u>1,188</u>	<u>(190)</u>	<u>22</u>	<u>2,084</u>

2007								
Maturity	Index for purchaser	Index for seller	Notional amount	Amount (payable)/receivable (curve)	Fair value	Amount (paid)	Amount received	Results
Up to 08.13.10	IGPM + 10.15% p.a.	TRD + 18.50% p.a.	1,234	(144)	(165)	(139)		95
Up to 10.13.14	IGPM + 10.9711% p.a.	TRD + 14.80% p.a.	3,402	(162)	(89)	(134)		273
Up to 02.13.13	IGPM + 9.70% p.a.	TRD + 15.00% p.a.	6,613	(511)	(748)	(270)		597
				<u>(807)</u>	<u>(1,002)</u>	<u>(643)</u>		<u>985</u>

As required by CVM Instruction No. 475 of December 17, 2008, please find below an analysis of the sensitivity level for each type of market risk considered material by management, by financial instrument for which the Company's management is responsible.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

Transaction	Risk	Probable scenario (I)	Scenario II	Scenario III
CRI in IGPM (assets)	Risk of drop in IGPM	(88)	(242)	(484)
LCI in TR (assets)	Risk of drop in TR	(3,193)	(6,780)	(17,580)
LH in TR (assets)	Risk of drop in TR	(1,107)	(3,045)	(6,090)
"Swap" IGPM x TR	Risk of increase in IGPM and drop in TR	1,707	(3,953)	(7,906)
Foreign Exchange Hedge	Loan - Risk of increase in exchange rates and IGPM	(7,439)	(53,565)	(99,691)
Foreign Exchange Hedge	SWAP - Risk of increase in exchange rates and IGPM	10,020	55,601	100,892
Foreign Exchange Hedge	Net effect	2,641	1,938	1,201

Probable Scenario (I):

Assets were classified into 2 categories:

- Financial instruments with measurement based on market indicators, i.e., which can be measured based on prices, rates and indices used as a reference in the market.
- Financial instruments with measurement not based on market indicators, i.e., for which market indices are not sufficient to reflect the actual conditions for financial realization.

For financial instruments with measurement based on market indicators, conditions prevailing in the market on the valuation date (prices, rates and indices disclosed by official agencies and institutions, including the Futures and Commodities Exchange (BM&F), the National Association of Open Market Institutions (ANDIMA) and the Central Bank of Brazil (BACEN) were considered. This results in the determination of a value that approximates market value on the valuation date.

For financial instruments with measurement not based on market indicators, internal methods were used, as proposed by the Risk area and ratified by management, on a conservative basis, i.e., scenarios unfavorable to the financial instruments were always used, by focusing on adverse conditions. A shock of 1% (one per cent) was used for the yield curves of asset positions and of -1% (minus one per cent) for the yield curves of liability positions, which resulted in a likely financial loss in a situation of parallel change in the structure of interest rates of said instruments. For such, the value of price elasticity in interest rates of the most significant portfolios (as defined by management) was determined.

Scenario (II):

Once the values at December 31, 2008 were defined and updated for conditions described in the current scenario, a worsening of 25% of the reference index was applied, as provided for in CVM Instruction No. 475 of December 17, 2008.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

For example:

(1) Financial instruments with measurement based on market indicators:

Index	U.S. dollar
Rate used for accounting purposes	PTAX rate
Probable Scenario (I)	Future U.S. dollar exchange rate BM&F
Scenario II	Future U.S. dollar exchange rate X 1.25

(2) Financial instruments with measurement not based on market indicators:

Index	Coupon + index
Rate used for accounting purposes	Accrual to the base date
Probable Scenario (I)	A shock of 1% was applied to yield curves of positions
Scenario II	A shock consistent with the worsening of 25% was applied to yield curves in the probable scenario situation.

Scenario (III):

Once the values at December 31, 2008 were defined and updated for conditions described in the current scenario, a worsening of 50% (fifty per cent) of the reference index was applied, as provided for in CVM Instruction No. 475 of December 17, 2008.

(1) Financial instruments with measurement based on market indicators:

Index	U.S. dollar
Rate used for accounting purposes	PTAX rate
Probable Scenario (I)	Future U.S. dollar exchange rate BM&F
Scenario III	Future U.S. dollar exchange rate X 1.50

(2) Financial instruments with measurement not based on market indicators:

Index	Coupon + index
Rate used for accounting purposes	Accrual to the base date
Probable Scenario (I)	A shock of 1% was applied to yield curves of positions
Scenario III	A shock consistent with the worsening of 50% was applied to yield curves of positions in the probable scenario situation.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reals unless otherwise indicated

It is important to emphasize that the results presented in the sensitivity analysis refer to simulations that involve, especially in the case of Scenarios II and III, strong "stress" situations, and a static portfolio position at December 31, 2008, considering the probable scenario. In such stress situations, we tried to estimate the shock in the yield curve consistent with the worsening as established in the CVM Instruction described above. Therefore, they do not reflect any changes resulting from a dynamic market or by actions that may come to be performed by the Company to minimize any risks involved.

17 Related Parties (Consolidated)

The balances of related-party transactions can be summarized as follows:

Description	2008		2007	
	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
Ourinvest Assessoria de Investimentos				
Sublease		(306)		(77)
Ourinvest Empreendimentos				
Amounts payable (a)	(74)			
Banco Ourinvest				
Marketable securities				9
Technical advice (b)		1,512		
Sublease		(1,121)		
Commissions (c)		(1,845)		
Acquisition of quotas (d)	(1,762)			
Amounts payable (e)	(166)		118	(937)
Amounts receivable (e)	278		408	1,904
Ourinvest Participações				
Marketable securities				(235)
TPG Axon				
Borrowings (Note 13)	(7,103)	(1,688)	(3,984)	175
Dividends payable (Note 15)	(2,922)		(4,986)	
Ourinvest Real Estate Holding S.A.				
Dividends payable (Note 15)	(2,981)		(5,086)	

(a) Amounts to be transferred related to credits that, although assigned, have their collections made by the Company under the Private Instrument of Assignment of Real Estate Credits executed on March 30, 2004, and mature on May 2, 2009 and accrue interest at a rate of 12% p.a. + IGPM.

(b) Services rendered.

(c) Commission for the distribution of Mortgage Notes (LHs) and Housing Loan Bills (LCIs).

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

(d) Liabilities for the acquisition of investment fund quotas.

(e) Reimbursement of expenses.

18 Other Information

(a) At December 31, 2008, BS had options and commitments to purchase real estate receivables totaling R\$ 644,606 (2007 - R\$ 257,120), which may be exercised until June 28, 2011.

(b) The result from securitization activities was as follows:

	<u>2008</u>	<u>2007</u>
Income from mortgage loans not yet securitized or restricted to guaranteed CRIs	41,158	14,619
Income from fees for allocation and structuring of transactions and other services	2,102	1,376
Discounts on the purchase of receivables and premiums on the sale of CRIs	<u>12,986</u>	<u>5,340</u>
	<u>56,246</u>	<u>21,335</u>
Income from mortgage loans securitized or restricted to CRIs with no guarantee	328,741	222,391
Financial income	2,789	2,218
Expenses from CRIs with no guarantee	<u>(318,317)</u>	<u>(215,347)</u>
	<u>13,213</u>	<u>9,262</u>
Result of securitized transactions in the year	<u>69,459</u>	<u>30,597</u>
Elimination of the portion relating to the period prior to the acquisition of the investee	<u></u>	<u>(5,544)</u>
Total consolidated results	<u>69,459</u>	<u>25,053</u>

(c) Income from services rendered comprises financial advisory services, asset management and fees for the structuring of operations and real estate funds.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reals unless otherwise indicated

- (d) Other operating income (expenses) in consolidated include R\$ 5,803 (2007- R\$ 3,385) relating to the amortization of portions of goodwill on the merger and the reversal of the equivalent portion of the provision for goodwill of BM and BS (Note 2(iii) and (i)). Also, other operating expenses include, both in parent company and in consolidated, the amount of R\$ 3,336 related to the additional monthly result to Fundo de Investimento Imobiliário Shopping West Plaza provided by the Company (intervening party in the contract for the assignment of rights in connection with the 30% interest held in the Shopping West Plaza venture), for the period of 48 months from the contract date.
- (e) Income from the assignment of real estate receivables in 2008 includes amounts related to contracts for assignment of future real estate receivables in connection with the lease of ventures in Fundo Premier Realty, which have been appropriated to results considering the flows estimated in the respective contracts.
- (f) Breakdown of Income and Social Contribution tax bases:

	<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>
Income before taxation and after profit sharing	29,422	58,901
Additions		
Other permanent and/or temporary additions	35,294	
Exclusions		
Equity in the earnings (losses)	(27,461)	(61,353)
Interest on own capital	(17,642)	
Taxable result in BFRE Participações until March 31, 2008	(562)	
Income and social contribution tax loss carryforwards offset	(2,452)	
Tax base (income tax and social contribution)	<u>(16,599)</u>	<u>(2,452)</u>
	<u>2008</u>	<u>2007</u>
	<u>Income tax</u>	<u>Social contribution</u>
	<u>Income tax</u>	<u>Social contribution</u>
Income tax and social contribution due	<u>4,026</u>	<u>1,494</u>

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

In 2007, certain subsidiaries offset income tax and social contribution loss carryforwards, thus reducing income tax and social contribution expense for the year by R\$ 6,203 in the consolidated financial statements. Also, tax credits were recognized on temporary differences, in the amount of R\$ 6,675, in the consolidated financial statements.

In 2008, the subsidiaries BM and BS had unrecorded tax credits in the approximate amount of R\$ 3,340 (2007- R\$ 5,313) on unrealized goodwill, which are being recognized over a 60-month period (Notes 2(III) and (i)). The investee BM Sua Casa, in its individual tax registers, has tax credits referring to unrecorded income and social contribution tax loss carryforwards in the combined amount of R\$ 7,098 (2007- R\$ 2,280). The income tax returns filed by each company in the past five years are subject to review and possible additional assessment by the tax authorities. Other taxes and contributions remain subject to review and approval by the respective authorities for variable periods, in accordance with applicable legislation.

- (g) At December 31, 2008, BC was responsible for managing the following enterprises which totaled approximately R\$ 2.2 billion (2007 - R\$ 1.9 billion): HG Realty BC Fundo de Investimento em Participações, Vivace Vila Romana Empreendimentos Imobiliários, HG BC II Fundo de Investimento em Participações, Klabin Segall Lapa Empreendimentos Imobiliários, BC Residential Receivables L.P., Fundo de Investimento Imobiliário Hotel Maxinvest, BCRE Development Fundo de Investimento Imobiliário em Participações, Parque Cidade Incorporação, Fundo de Investimento Imobiliário Brazilian Capital Real Estate Fund I, Fundo de Investimento Imobiliário Comercial Progressivo II and Fundo de Investimento Imobiliário Premier Realty.
- (h) The companies are not parties to any judicial and administrative proceedings of a tax, civil or labor nature which would require the recording of contingent liabilities or legal obligations.
- (i) At Extraordinary General Meetings held on November 13, 2007 and April 17, 2008, stockholders approved and ratified, respectively, the First Stock Option Plan ("Plan"), to be effectively granted through Option Agreements ("Agreements"), to managers and employees who hold senior positions in the Company or its subsidiaries ("Beneficiaries"). On May 2, 2008, stock options were granted for 7,323,636 nominative preferred shares of the Company, corresponding to 1.8% of the total shares comprising the Company's capital existing at the Plan approval date.

Brazilian Finance & Real Estate S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

By December 31, 2008, no option had been exercised, because, as provided for in the Plan and Agreements, options granted shall only be exercisable after the elapsing of relevant vesting periods, which are as follows: the 1st third of options granted may be exercised by the Beneficiaries as from May 2, 2009; the 2nd third as from May 2, 2010 and the 3rd third as from May 2, 2011. Any terminations of Beneficiaries that may occur during the vesting periods shall comply with the provisions established in the Plan, as to whether the option may be exercised or not, taking into consideration principally the reason for the termination.

As from the time options become exercisable, i.e., after the elapsing of the relevant vesting period(s), Beneficiaries shall have two years to express their interest in exercising the option ("Option Exercise Period"). After such period has elapsed, if the options remain unexercised, all rights granted shall expire.

The price established to exercise the option was R\$ 1.665436061 per share, monetarily adjusted based on the IGPM fluctuation during the Option Exercise Period. In this way, the price shall be adjusted from the time the Beneficiary is entitled to exercise the Option through the effective exercise of it.

As required by CVM Resolution No. 562/08, which approved CPC Pronouncement No. 10 - Stock-Based Compensation, the Company estimated the fair value of stock options considering the grant date and based on comparisons of methods adopted by peer companies. The revenue multiples method was adopted based on quotations available on the market. The methodologies used are justified because the Company is not listed and does not have its shares frequently traded on markets. As a result of the study described above, we have not arrived at a positive fair value for the options, and therefore no accounting entry was required to be made.

- (j) At December 31, 2008, the properties for rent that pertain to the real estate funds, of which the Company and its subsidiaries are controlling quotaholders, comprised the following:

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

	2008			
	Number	Cost	Accumulated depreciation	Net
Ventures (*)	7	110,145	(7,299)	102,846
Income from the assignment of future real estate receivables		(27,684)		(27,684)
Total	7	82,461	(7,299)	75,162
	2007			
	Number	Cost	Accumulated depreciation	Net
Ventures (**)	3	162,183	(4,728)	157,455
Apartments	415	45,694	(663)	45,031
Income from the assignment of future real estate receivables		(58,201)		(58,201)
Total	418	149,676	(5,391)	144,285

(*) IBMEC, JK Farah and residential buildings.

(**) IBMEC, JK Farah and Shopping West Plaza.

The investments were acquired based on the market value of the properties, which are supported by appraisal reports prepared by independent companies, based on projections of future performance of the flow of income and expenses discounted to present value.

Additionally, during 2007 and 2008, properties for rental under construction were acquired for R\$ 235,282 (2007 - R\$ 191,790). Some of these properties, which were completed or under construction, were acquired in a credit sale, and the installments falling due amounted to R\$ 127,913 (2007- R\$ 170,914), recorded in "Other Liabilities". This total includes R\$ 78,327 (2007- R\$ 99,350), which is pegged to the INCC and R\$ 24,118 (2007 - R\$ 23,540) at 50% of the CDI. In both cases, the maturity of the liability is directly related to the status of the projects.

Income from the rental and sale of properties refers to both the rental of properties, in the amount of R\$ 5,030 (2007 - R\$ 13,670), and the sale of properties, mainly those comprised in Fundo de Investimento Imobiliário Premier Realty, in the amount of R\$ 43,533 (2007 - R\$ 43,770).

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

- (k) The properties for rent, owned by the real estate investment funds, as well as the owned and rented assets, are insured against risks, and the maximum amounts are as follows:

			2008
<u>Nature of the asset</u>	<u>Number of insured assets</u>	<u>Type of coverage</u>	<u>Maximum risk covered</u>
Commercial projects	1	(1)	55,000
Projects under construction	1	(2)	137,000
Buildings	1	(3)	1,500
BM Sua Casa stores	19	(4)	2,420
			2007
<u>Nature of the asset</u>	<u>Number of insured assets</u>	<u>Type of coverage</u>	<u>Maximum risk covered</u>
Commercial projects	3	(6)	218,300
Apartments	415	(7)	39,213
Buildings	1	(3)	1,500
BM Sua Casa Stores	5	(4)	150
Vehicle	1	(5)	310

- (1) Collision, fire, robbery, breakage of glass, aircraft accident, portable equipment and devices, loss/payment of rental.
- (2) Full coverage of work in progress and assembly installation, damages resulting from project errors, clearing away expenses, cost of rescue and damage containment, special expenses, comprehensive maintenance and civil liability.
- (3) Fire, lightning, explosion, electric damages, spillage of water or liquid from automated devices, expenses to restore records and documents, electronic equipment, crash of aircraft or any other airborne craft, civil liability, robbery or theft of assets, Interruption of business due to material damages.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

- (4) Fire, lightning, explosion, electric damages, expenses to restore records and documents, robbery or theft of assets, riots, civil liability.
- (5) Physical damages and bodily injury.
- (6) Fire, lightning, explosion, gale, hurricane, cyclone, tornado, hail, smoke, electric damages, theft, ground vehicles collision, crash of aircraft or any other airborne craft, employee loyalty, electronic equipment and portable devices, spillage of water or other liquids, breakage of glass and luminous signs, riots, strikes, flooding, collision, robbery and fire (garage).
- (7) Fire, lightning and explosion.
- (l) As described in Note 1, the Company holds 100% of the quotas of Fundo de Investimento Imobiliário Premier Realty. These quotas were offered as guarantee on the assignment of future real estate receivables in connection with the lease of ventures, which have been securitized.

**19 Information Required in Items I
Through III of Article 3 of CVM Instruction
No. 414/04 (Related to Brazilian Securities)**

- (a) Please find below information related to the monthly volume of acquisitions, as well as percentage of payments and defaults related to said credits:

<u>Month</u>	<u>Acquisitions</u>		
	<u>Number of transactions</u>	<u>Number of agreements</u>	<u>Original amount</u>
Jan/2008	8	47	3,834
Feb/2008	8	112	11,801
Mar/2008	6	905	60,998
Apr/2008	5	22	73,305
May/2008	10	428	97,340
Jun/2008	6	299	76,112
Jul/2008	8	58	316,186
Aug/2008	4	25	40,477
Sep/2008	5	78	56,940
Oct/2008	7	116	17,600

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reals unless otherwise indicated

<u>Month</u>	<u>Acquisitions</u>		
	<u>Number of transactions</u>	<u>Number of agreements</u>	<u>Original amount</u>
Nov/2008	5	111	13,959
Dec/2008	7	94	82,818
	<u>79</u>	<u>2,295</u>	<u>851,370</u>

- (b) No retrocession transactions were carried out during current year.
- (c) Non-default and default.

CRI's

<u>Date of enrollment with Cetip</u>	<u>CRI's</u>	<u>Number of agreements</u>	<u>Original amount</u>	<u>Base Date: 12.31.08</u>	
				<u>% - Non-default</u>	<u>% - Default (*)</u>
01.13.08	85	106	13,558	95.9%	4.1%
02.13.08	86 and 87	200	39,763	99.0%	1.0%
03.13.08	88	231	30,943	98.3%	1.7%
03.13.08	89 and 90	269	29,486	97.7%	2.3%
04.13.08	92 and 93	93	20,330	100.0%	0.0%
04.25.08	91	1	64,522	100.0%	0.0%
05.01.08	95 and 98	879	46,582	96.6%	3.4%
05.09.08	94	3	22,734	100.0%	0.0%
06.04.08	97	1	10,246	100.0%	0.0%
06.13.08	98 and 99	66	19,658	98.2%	1.8%
07.10.08	100	1	288,000	100.0%	0.0%
07.28.08	101	1	19,831	100.0%	0.0%
08.13.08	104	1	36,750	100.0%	0.0%
09.13.08	105	86	17,330	100.0%	0.0%
09.13.08	106	76	10,056	100.0%	0.0%
09.13.08	108	1	27,000	100.0%	0.0%
	109 and				
09.13.08	110	480	43,421	100.0%	0.0%
09.21.08	107	1	21,200	100.0%	0.0%
10.13.08	111	293	47,529	100.0%	0.0%
12.01.08	112	1	24,694	100.0%	0.0%

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

<u>Date of enrollment with Cetip</u>	<u>CRI's</u>	<u>Number of agreements</u>	<u>Original amount</u>	<u>Base Date: 12.31.08</u>	
				<u>% - Non-default</u>	<u>% - Default (*)</u>
12.13.08	113	<u>114</u>	<u>16,163</u>	100.0%	0.0%
		<u>2,904</u>	<u>848,796</u>		

(*) The percentage of default was determined considering the debit balance of agreements in default for more than 90 days in relation to the restated balance of the CRI in question.

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

(d) Independent financial statements by issue of CRI in trust.

CRI	Total assets	Current assets				Non-current		Current		Non-current		
		Cash and banks	Financial investments	Mortgage related receivables	Assets not for own use	Amounts receivable for the sale of assets not for own use	Financial investments	Mortgage related receivables	Total liabilities	Mortgage backed securities	Derivative financial instruments	Mortgage backed securities
Series 3 and 4	521	1		138	84		289	28	(521)		(521)	0
Series 13 to 17	8,708	8		1,028			7,672	(8,690)	(1,028)		(7,664)	14
Series 26 and 27	841	23		423		164	336	(653)	(266)		(388)	267
Series 28 and 29	2,823	25		1,103	78	342	875	(1,602)	(619)		(984)	920
Series 30 and 31	5,555	44		1,716	143	1,285	2,397	(4,423)	(1,550)		(2,876)	1,130
Series 34 and 35	1,116,112	22		28,730			1,086,380	(1,114,899)	(28,657)		(1,085,974)	271
Series 36 and 37	4,239	29		733		744	2,732	(4,236)	(844)		(3,693)	1
Series 40 and 41	5,396	30		1,446		302	3,418	(8,139)	(1,227)		(3,913)	258
Series 46	91,020	1,703		7,510		137	81,870	(91,018)	(8,118)		(62,902)	
Series 47 and 48	2,804	68	138	1,201			1,209	(2,319)	(1,073)		(1,247)	284
Series 49 and 50	16,671	68	403	5,881		441	1,247	(4,384)	(4,639)		(9,826)	1,306
Series 51 and 52	28,937	191		11,694		7,921	7,741	(26,875)	(5,083)		(21,794)	60
Series 53 and 54	4,285	51	324	1,684			2,246	(3,731)	(1,189)		(2,543)	553
Series 55	58,838	32	2,103	2,355		746	51,402	(58,528)	(3,442)		(53,089)	107
Series 57	5,024	27	187	4,737		83		(4,257)	(1,504)		(2,754)	768
Series 58 and 59	12,268	59	660	4,358		69	7,110	(11,515)	(3,949)		(7,567)	740
Series 60 and 61	43,928	80	678	4,645			6,328	(13,025)	(8,899)		(4,027)	903
Series 64 and 65	61,586			8,088			59,500	(61,220)	(830)		(60,391)	376
Series 67 and 68	17,427	7		6,728		62	10,610	(17,231)	(8,755)		(10,477)	185
Series 69 and 70	10,627	80	390	1,535			8,822	(10,627)	(281)		(10,338)	
Series 71 and 72	89,910	300	3,349	11,283		1,201	53,677	(88,238)	(9,334)		(58,905)	1,671
Series 73	13,214	229	1,318	3,276		65	8,338	(13,213)	(2,884)		(10,330)	
Series 74 and 75	29,418	3	478	2,584		3,360	33,013	(28,380)	(2,267)		(26,094)	11,057
Series 76	20,432	43	1,373	5,842		1,670	11,504	(19,088)	(4,714)		(14,368)	1,362
Series 77	9,098	8	381	8,053		658		(8,416)	(3,364)		(5,053)	681
Series 78	10,292	68	391	2,828		695	8,514	(10,289)	(2,317)		(7,962)	23
Series 79	14,411	410	1,057	4,109		363	6,472	(13,482)	(3,021)		(10,472)	918
Series 80	101,367	256	240	2,672			98,219	(100,624)	(3,408)		(97,186)	763
Series 81	16,428						15,428	(15,482)		(854)	(14,674)	
Series 82	20,702						20,702	(20,661)		(844)	(18,817)	41
Series 83	20,709						20,709	(20,856)		(171)	(20,485)	63
Series 85	20,762						20,762	(20,852)		(103)	(20,649)	110
Series 86 and 87	11,293	21	284	3,231		665	7,092	(11,087)	(2,741)		(8,356)	198
Series 88	22,583	68		7,387		4,960	10,188	(21,819)	(7,851)		(13,668)	764
Series 89	14,977	71		4,574				(14,977)	(4,199)		(10,778)	
Series 89 and 90	30,853	80	978	29,593		502	9,830	(30,280)	(4,240)		(26,020)	393
Series 91	29,120						28,120	(29,120)			(29,120)	
Series 92 and 93	7,613	54	385	1,265		785	5,104	(6,891)	(2,900)		(4,851)	762
Series 94	20,087	842	20	9,141			10,084	(18,288)	(7,901)		(11,395)	791
Series 97	9,930			1,036			8,894	(9,930)	(1,036)		(8,894)	

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

CRI	Current assets					Non-current			Current		Non-current	
	Total assets	Cash and banks	Financial investments	Mortgage related receivables	Assets not for own use	Amounts receivable for the sale of assets not for own use	Financial investments	Mortgage related receivables	Total liabilities	Mortgage backed securities	Derivative financial instruments	Mortgage backed securities
Series 88 and 98	12,546	97	1,104	4,504			6,750	(12,545)	(4,484)		(8,061)	
Series 109	303,701			15,163			288,518	(303,701)	(16,183)		(288,518)	
Series 101	5,242						5,342	(5,322)		(49)	(5,273)	20
Series 104	37,698	2	45	832		29	36,168	(38,992)	(812)		(38,181)	73
Series 105	18,608	63	901	7,470			8,174	(18,581)	(8,186)		(10,418)	27
Series 106	9,412	69	173	2,432			6,748	(8,288)	(1,491)		(7,797)	124
Series 107	21,600	2		469			21,138	(21,698)	(468)		(21,138)	2
Series 108	28,194						28,184	(28,184)			(28,184)	
Series 109 and 110	45,377	183	609	19,687			24,718	(44,936)	(18,073)		(26,863)	441
Series 111	47,759	618	4,536	15,051			27,654	(47,759)	(12,688)		(35,091)	
Series 112	25,219						25,219	(24,808)			(24,807)	312
Series 113	18,287	6	391	15,890				(18,238)	(2,387)		(18,887)	53
Total with no guarantee	2,532,137	5,803	23,114	274,162	285	648	27,782	2,200,255	(2,608,330)	(197,741)	(2,303,568)	28,807
Series 9 and 10	1,889	18		547	504	276	261	373	(4,064)	(159)	(3,905)	(2,085)
Series 95 and 96	40,873	122	838	4,180				35,825	(41,007)	(4,033)	(38,974)	(34)
Total with guarantee	42,842	140	838	4,737	504	276	251	38,198	(46,071)	(4,192)	(40,879)	(2,128)

**Brazilian Finance & Real Estate S.A.
and Subsidiaries**

**Notes to the Financial Statements
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

Also, Notes 6, 7 and 12, "Securitized Transactions", "Mortgage Loans" and "Mortgage Backed Securities", respectively, have the balances related to their respective transactions / issues disclosed on a segregated basis, by Issue of CRI in trust.

- (e) The Company does not have any issue subject to CRI rating report updating, because it does not have any issues with unit par value lower than R\$ 300, nor issues that include the obligation of preparing a risk rating report, as provided for in item 7 of Article 7 of CVM Instruction No. 414/04.

* * *