

**Banco Modal S.A. and Banco  
Modal S.A. and Subsidiaries  
(CONEF)**

**Financial Statements at  
December 31, 2010  
and Report of Independent Auditors**

## **Independent Auditors' Report**

To the Board of Directors and Stockholders  
Banco Modal S.A.

We have audited the accompanying financial statements of Banco Modal S.A. ("Bank"), which comprise the balance sheet as at December 31, 2010 and the statements of income, change in equity and cash flows for the year then ended and for the second six-month period of 2010, as well as the consolidated financial statements of Banco Modal and its subsidiaries (financial economic consolidation - "CONEF") which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of income, change in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Brazilian Central Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Banco Modal S.A.

We believe that the audit evidences we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion the financial statements present fairly, in all material respects, the financial position of Banco Modal S.A. and Banco Modal S.A. and its subsidiaries (financial economic consolidation - CONEF) as at December 31, 2010, and of their results of operations, changes in equity and cash flows for the year then ended and for the second six-month period of 2010, in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank.

Rio de Janeiro, February 3, 2011

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "F" RJ

João Manoel dos Santos  
Contador CRC 1RJ054092/O-0

**Banco Modal S.A. and Banco Modal S.A.  
and Subsidiaries (CONEF)**

**Balance Sheets at December 31**  
All amounts in R\$ thousands

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF			Banco Modal S.A.		CONEF	
	2010	2009	2010	2009		2010	2009	2010	2009
<b>Assets</b>					<b>Equity and liabilities</b>				
Current assets					Current liabilities				
Cash and cash equivalents					Deposits				
Cash	86	104	88	107	Demand deposits	11,973	5,421	11,970	5,415
Free reserves	408	392	408	392	Interbank deposits		5,190		5,190
Cash and cash equivalents in foreign currency	245	3,718	245	3,718	Time deposits	164,782	127,073	162,583	122,105
					Other deposits	4,654	100	4,654	100
	739	4,214	741	4,217		181,409	137,784	179,207	132,810
Interbank investments - open market	194,936	51,006	194,936	51,006	Open market				
					Own portfolio	213,009	195,409	213,009	195,409
Marketable securities and derivative financial instruments					Third parties portfolio	130,025	49,744	130,025	49,744
Own portfolio	344,195	249,451	344,195	249,451	Free movement portfolio	59,449		59,449	
Subject to repurchase agreements	214,157	195,978	214,157	195,978		402,483	245,153	402,483	245,153
Subject to guarantees	103,036	88,418	103,036	88,418	Funds from acceptance and issue of securities				
Derivative financial instruments	18,769	21,149	18,769	21,149	Housing loan bills	38,011	1,336	38,011	1,336
	680,157	554,996	680,157	554,996	Agribusiness credit notes	7,296	13,684	7,296	13,684
Interbank accounts						45,307	15,020	45,307	15,020
Restricted receivables - deposits with the Brazilian Central Bank	1,699	1,520	1,699	1,520	Interbank accounts				
Correspondent banks in Brazil	733	2,049	733	2,049	Services for clearing checks	4		4	
	2,432	3,569	2,432	3,569	Interdepartmental accounts				
Credit operations					Third-party funds in transit	46		46	
Private sector					Borrowings				
Loans and discounted securities	194,072	128,917	194,072	128,917	Local borrowings		18,117		18,117
Financing	9,120		9,120		Foreign borrowings	8,469	1,747	8,469	1,747
OnlendingsFINAME/BNDES		139		139		8,469	19,864	8,469	19,864
Marketable Securities financing	432		432		Onlendings				
(-) Impairment of trade receivables	(2,330)	(4,757)	(2,330)	(4,757)	FINAME/BNDES		139		139
	201,294	124,299	201,294	124,299	Derivative financial instruments	18,682	25,490	18,682	25,490
Other receivables					Other liabilities				
Receivables from honored guarantees	90		90		Tax payment and collection	799	132	799	132
foreign exchange portfolio	19,778	30,027	19,778	30,027	Foreign exchange portfolio		2,611		2,611
Income receivable	216	5,626			Social and statutory	5,452	4,356	5,978	4,642
Negotiation and intermediation of securities	2,898	2,401	2,898	2,401	Taxes and social security contributions	4,337	4,379	4,734	5,229
Others	21,543	13,790	22,254	16,804	Negotiation and intermediation of securities	32,513	8,138	32,513	8,138
(-) Allowance for doubtful accounts	(448)	(335)	(448)	(335)	Subordinated debts	1,326	1,921	1,326	1,921
	44,077	51,509	44,572	48,897	Others	4,247	4,403	4,251	4,481
Other receivables and assets						48,674	25,940	49,601	27,154
Assets not for own use		2,957		2,957		705,074	469,390	703,799	465,630
Prepaid expenses	377	160	377	160	Long-term liabilities				
	377	3,117	377	3,117	Deposits				
	1,124,012	792,710	1,124,509	790,101	Time deposits	263,720	154,687	263,720	154,687
Long-term receivables					Funds from acceptance and issue of securities				
Marketable securities and derivative financial instruments					Housing loan bills		57,381		57,381
Subject to guarantees		22,478		22,478	Derivative financial instruments	3,809	3,446	3,809	3,446
Derivative financial instruments	16,759	35,047	16,759	35,047	Other liabilities				
	16,759	57,525	16,759	57,525	Taxes and social security contributions	25,719	20,649	25,719	20,649
Credit operations - private sector					Subordinated debts	49,986	52,236	49,986	52,236
Loans and discounted securities	89,445	80,680	89,445	80,680		75,705	72,885	75,705	72,885
						343,234	288,399	343,234	288,399
Other credits - sundry	18,379	20,142	18,379	20,142	Non-controlling interests			169	
	124,583	158,347	124,583	158,347	Equity				
Permanent					Capital				
Investments					Local residents	188,660	183,730	188,660	183,730
In subsidiaries	1,603	1,151			Capital Increase		4,930		4,930
Other investments	2	2	2	2	Revenue reserves	20,973	13,852	20,973	13,852
Property and equipment	3,865	4,349	3,865	4,349	Adjustment to market value - securities and derivatives	659	2	659	2
Deferred	425	723	425	723		210,292	202,514	210,292	202,514
Intangible assets	4,110	3,021	4,110	3,021	Total equity and liabilities	1,258,600	960,303	1,257,494	956,543
	10,005	9,246	8,402	8,095					
Total assets	1,258,600	960,303	1,257,494	956,543					

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

# Banco Modal S.A. and Banco Modal S.A. and Subsidiaries (CONEF)

## Income Statements

All amounts in R\$ thousands, except net income per share

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF		
	2nd Six-month period of 2010	Years ended December 31		Years ended December 31	
		2010	2009	2010	2009
<b>Income from financial intermediation</b>					
Credit operations	21,568	38,249	13,594	38,249	
Results of operations with marketable securities	48,966	79,422	68,452	79,422	
Results on derivative financial instruments	4,918	15,423	(8,178)	15,423	
Income from foreign exchange operations	833	6,140		6,140	
	<u>76,285</u>	<u>139,234</u>	<u>73,868</u>	<u>139,234</u>	
<b>Expenses on financial intermediation</b>					
Funds obtained in the market	(46,288)	(76,158)	(46,834)	(75,747)	
Borrowings and onlendings	(1,586)	(5,176)	(1,247)	(5,176)	
Exchange transactions expenses			(4,337)	(4,337)	
Impairment of trade receivables	(358)	2,212	254	2,212	
	<u>(48,232)</u>	<u>(79,122)</u>	<u>(52,164)</u>	<u>(78,711)</u>	
<b>Gross profit from financial intermediation</b>	<u>28,053</u>	<u>60,112</u>	<u>21,704</u>	<u>60,523</u>	
<b>Other operating income (expenses)</b>					
Services revenue	8,411	14,440	10,446	24,739	
Personnel expenses	(10,641)	(20,982)	(16,379)	(23,294)	
Other administrative expenses	(13,917)	(24,862)	(20,306)	(25,079)	
Tax expenses	(2,639)	(5,080)	(4,104)	(5,729)	
Equity in the earnings of subsidiaries	1,577	5,663	9,918	4	
Other operating income	5,564	5,564	24,213	5,564	
Other operating expenses	(2,223)	(6,458)	(5,165)	(6,458)	
	<u>(13,868)</u>	<u>(31,715)</u>	<u>(1,377)</u>	<u>575</u>	
<b>Operating income</b>	<u>14,185</u>	<u>28,397</u>	<u>20,327</u>	<u>30,270</u>	
<b>Non-operating income</b>	<u>14</u>	<u>(947)</u>	<u>255</u>	<u>(947)</u>	
<b>Income before taxation and profit sharing</b>	<u>14,199</u>	<u>27,450</u>	<u>20,582</u>	<u>29,323</u>	
<b>Income tax and social contribution</b>					
Provision for income tax	196	(796)		(1,737)	
Provision for social contribution	91	(511)		(861)	
Deferred tax assets	(1,954)	(1,779)	1,664	(1,779)	
	<u>(1,667)</u>	<u>(3,086)</u>	<u>1,664</u>	<u>(4,377)</u>	
<b>Profit-sharing</b>	<u>(3,624)</u>	<u>(5,743)</u>	<u>(3,883)</u>	<u>(5,903)</u>	
<b>Non-controlling Interest</b>				<u>(422)</u>	
<b>Net profit for the six-month period/year</b>	<u>8,908</u>	<u>18,621</u>	<u>18,363</u>	<u>18,621</u>	
<b>Interest on capital</b>	<u>(5,000)</u>	<u>(9,000)</u>	<u>(11,600)</u>	<u>(9,000)</u>	
<b>Net income per share - R\$</b>	<u>226.45</u>	<u>473.36</u>	<u>466.80</u>		

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

# Banco Modal S.A.

## Statements of Changes in Equity

All amounts in R\$ thousands

(A free translation of the original in Portuguese)

	Capital	Capital increase	Capital reserve	Revenue reserves		Adjustment to market value of securities and derivatives	Retained earnings	Total
			Restatement of equity securities	Legal	Statutory			
<b>Year ended December 31, 2009</b>								
At January 1, 2009	131,800		372	8,355	47,734	2,531		190,792
Write-down of membership certificates reserve - CETIP			(372)					(372)
Capital increases								
Confirmed by BACEN	51,930				(47,000)			4,930
To be confirmed by BACEN		4,930						4,930
Adjustment to market value - securities and derivatives						(2,529)		(2,529)
Profit for the year							18,363	18,363
Appropriations								
Transfer to reserves				919	5,844		(6,763)	(11,600)
Interest on capital (R\$ 151.18 per share)					(2,000)			(2,000)
Proposed dividends (R\$ 50.84 per share)								(2,000)
At December 31, 2009	<u>183,730</u>	<u>4,930</u>	<u></u>	<u>9,274</u>	<u>4,578</u>	<u>2</u>	<u></u>	<u>202,514</u>
<b>Changes in 2009</b>	<u>51,930</u>	<u>4,930</u>	<u>(372)</u>	<u>919</u>	<u>(43,156)</u>	<u>(2,529)</u>	<u></u>	<u>11,722</u>
<b>Year ended December 31, 2010</b>								
At January 1, 2010	183,730	4,930		9,274	4,578	2		202,514
Capital increases								
Confirmed by BACEN	4,930	(4,930)						
Adjustment to market value - securities and derivatives						657		657
Profit for the year							18,621	18,621
Appropriations								
Transfer to reserves				932	8,689		(9,621)	(9,000)
Interest on capital (R\$ 228.79 per share)					(2,500)			(2,500)
Proposed dividends (R\$ 63.55 per share)								(2,500)
At December 31, 2010	<u>188,660</u>	<u></u>	<u></u>	<u>10,206</u>	<u>10,767</u>	<u>659</u>	<u></u>	<u>210,292</u>
<b>Changes in 2010</b>	<u>4,930</u>	<u>(4,930)</u>	<u></u>	<u>932</u>	<u>6,189</u>	<u>657</u>	<u></u>	<u>7,778</u>
<b>Six-month period ended December 31, 2010</b>								
At July 1, 2010	188,660			9,760	7,305	(950)		204,775
Adjustment to market value - securities and derivatives						1,609		1,609
Profit for the six-month period							8,908	8,908
Appropriations								
Transfer to reserves				446	3,462		(3,908)	(5,000)
Interest on capital (R\$ 127.10 per share)							(5,000)	(5,000)
At December 31, 2010	<u>188,660</u>	<u></u>	<u></u>	<u>10,206</u>	<u>10,767</u>	<u>659</u>	<u></u>	<u>210,292</u>
<b>Changes in the 2nd six-month period of 2010</b>	<u></u>	<u></u>	<u></u>	<u>446</u>	<u>3,462</u>	<u>1,609</u>	<u></u>	<u>5,517</u>

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

# Banco Modal S.A. and Banco Modal S.A. and Subsidiaries (CONEF)

## Statements of Cash Flows In R\$ thousands

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF		
	Years ended December 31		Years ended December 31		
	2nd six-month period of 2010	2010	2009	2010	2009
<b>Cash flow from operating activities</b>					
<b>Net income</b>	8,908	18,621	18,363	18,621	18,363
<b>Adjustment to net income</b>					
Impairment of trade receivables	358	(2,212)	(254)	(2,212)	(254)
Depreciation and amortization	944	1,785	1,718	1,785	1,718
Deferred income tax and social contribution	1,954	1,779	(1,664)	1,779	(1,664)
Equity in the earnings of subsidiary and associated companies	(1,577)	(5,663)	(9,918)	(4)	(148)
Provision for current income tax and social contribution	(287)	1,307	1,307	2,598	1,726
Provision COFINS	2,281	4,685	4,133	4,685	4,133
Profit-sharing	3,624	5,743	3,883	5,903	4,372
Non-controlling interests				422	
Capital gain on the sale of investments			(1)		(1)
Interest / exchange variation on subordinate debt	(3,221)	(256)	(15,146)	(256)	(15,146)
Loss on disposal of property, plant and equipment	5	5	3	5	3
<b>Net income/ (loss) adjusted</b>	12,989	25,794	1,117	33,326	13,102
(Increase)/decrease in interbank investments	(182,940)	(143,930)	(5,206)	(143,930)	(5,206)
(Increase)/decrease in marketable securities trading portfolio	(51,369)	(31,330)	937	(31,330)	937
(Increase)/decrease in derivative financial instruments	20,390	14,223	(25,763)	14,223	(25,763)
(Increase)/decrease in compulsory deposits with BACEN	(151)	(179)	926	(179)	926
(Increase)/decrease in interbank and interdepartmental accounts	(1,790)	1,366	(2,034)	1,366	(2,034)
(Increase)/decrease in credit operations	(10,190)	(83,435)	(70,533)	(83,435)	(70,533)
(Increase)/decrease foreign exchange portfolio	(4,293)	7,638	12,594	7,638	12,594
(Increase)/decrease in other credits	(11,134)	(11,593)	11,578	(4,274)	7,649
Increase in other assets	(267)	(217)	(83)	(217)	(53)
(Increase)/decrease in other liabilities	30,880	22,399	(50,076)	15,184	(50,412)
<b>Net cash provided by (used in) operating activities</b>	(197,875)	(199,264)	(126,543)	(191,628)	(118,793)
<b>Cash flow from investing activities</b>					
(Increase)/decrease in marketable securities portfolio available for sale	2,570	(73,076)	(121,556)	(73,076)	(121,556)
Decrease in investment capital	152	152	2,168		
Acquisition investment		(199)		(199)	
Sale of investments	243	243	529	243	717
Sale of assets not for own use		2,957		2,957	
Acquisition of assets not for own use			(2,957)		(2,957)
Sale of property and equipment			108		108
Acquisition of property and equipment	(381)	(697)	(1,499)	(697)	(1,499)
Increase in intangible assets	(815)	(1,388)	(925)	(1,388)	(925)
Received dividends and interest on capital	4,800	10,426	10,264		
<b>Net cash (used in) provided by investing activities</b>	6,569	(61,582)	(113,868)	(72,160)	(126,112)
<b>Cash flow from financing activities</b>					
Capital Increase			9,860		9,860
Increase in minority interest				169	
Capital reserve decrease			(372)		(372)
Increase/(decrease) in deposits	99,546	152,658	140,768	155,430	145,262
Increase in acceptance and issue of securities	(32,483)	(27,094)	72,401	(27,094)	72,401
Increase in funds from the open market	132,249	157,330	64,044	157,330	64,044
(Increase)/decrease in liabilities due borrowings and onlendings	941	(11,534)	(19,675)	(11,534)	(19,675)
Decrease in subordinated debts		(2,589)	(3,645)	(2,589)	(3,645)
Dividends paid	(2,500)	(4,500)	(4,000)	(4,500)	(4,000)
Interest paid on capital	(6,900)	(6,900)	(15,425)	(6,900)	(15,425)
<b>Net cash provided by (used in) financing activities</b>	190,853	257,371	243,956	260,312	248,450
<b>Net increase/decrease in cash and cash equivalents</b>	(453)	(3,475)	3,545	(3,476)	3,545
<b>Cash and cash equivalents at beginning of the period/year</b>	1,192	4,214	669	4,217	672
<b>Cash and cash equivalents at end of the period/year</b>	739	739	4,214	741	4,217

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

# **Banco Modal S.A. and Banco Modal S.A. and Subsidiaries(CONEF)**

## **Notes to the Financial Statements at December 31, 2010 and 2009 All amounts in R\$ thousands**

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### **1 Operations**

Banco Modal S.A. is a limited liability corporation, and its objective is to carry out banking operations and to render the permitted services for multiservice banks with commercial, investment and foreign exchange portfolios. It can also hold investments in other companies. Through its wholly-owned subsidiary Modal Asset Management Ltda., it operates in the management of third parties' resources.

In February 2010, the Brazilian Central Bank (BACEN) authorized the opening of an agency abroad, located in Cayman. Later, in January 2011, the same agency was authorized by the Cayman Islands Monetary Authority (CIMA).

### **2 Significant Accounting Practices**

The financial statements were prepared in accordance with the accounting practices adopted in Brazil and the rules and regulations established by the BACEN. The financial statements include estimates relating to loan losses and other similar charges. The actual results may differ from those estimated.

#### **(a) Net income**

It is determined on the accrual basis.

#### **(b) Cash and cash equivalents**

These comprise money in cash in domestic, foreign currency and free reserves. These present an insignificant risk of change in fair value. These are used by the Bank for managing its short-term liabilities.

#### **(c) Marketable Securities**

Marketable securities are classified under the terms of BACEN Circular No. 3,068/01 into the following three categories:

- (i) Trading securities - securities acquired in order to be traded on a frequent and active basis, which are recorded at market value, with a corresponding entry to the statement of income for the year.
- (ii) Securities held to maturity - securities acquired with the intention to hold them up to maturity, which are recorded at acquisition cost plus accrued income, with a corresponding entry to the statement of income for the year.
- (iii) Securities available for sale - securities not classified in categories (i) and (ii), which are recorded at acquisition cost plus accrued income, with a corresponding entry to the statement of income and valued at market value, with a corresponding entry to a specific stockholders' equity account. Most of the securities are used in the management of the Bank's cash.

## **Banco Modal S.A. and Banco Modal S.A. and Subsidiaries(CONEF)**

### **Notes to the Financial Statements at December 31, 2010 and 2009 All amounts in R\$ thousands**

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In the years ended December 31, 2010 and 2009, there were no reclassifications of securities between the categories.

#### **(d) Interbank investments, credit operations and interbank and time deposits**

Pre-fixed operations are recorded at future values, adjusted for the unearned income/expenses, and post-fixed operations are recorded at the restated amounts, both on a daily pro rata basis up to the date of the financial statements.

For the credit operations, the accrual is made up to the 60th day of delay. After the 60th day, the recognition in the income occurs on the effective receipt of the installments..

#### **(e) Impairment of trade receivables**

This allowance is estimated based on an analysis of transactions carried out by management, so as to conclude on the realization value of such credits. It takes into consideration the economic scenario, past experience and the specific and overall risks of each transaction, the guarantees for each operation, as well as the rules and instructions established by BACEN.

#### **(f) Deferred credits and taxes**

Deferred credits and taxes arising from the valuation of securities and derivative financial instruments at market values and from the temporary differences in respect of the allowance for the receipt of doubtful loans, adjustments to the results for interest operations carried out in markets of future settlement and the provisions for the Tax for Social Security Financing ("Contribuição para o Financiamento da Seguridade Social - COFINS") whose collection has been suspended, were calculated and recorded in accordance with the standards established by BACEN Circular No. 3,171/02, taking into consideration the income tax and social contribution rates in effect and the estimates of realization relating to the operations which generated them.

#### **(g) Permanent**

- (i) Investments - investments in subsidiaries are accounted for by the equity method. Other investments are valued at cost
- (ii) Property and equipment - stated at cost of acquisition, net of depreciation calculated on the straight-line method, based on the useful lives of assets, being 10% for furniture and fixtures, machinery and equipment and 20% for data processing equipment.

## **Banco Modal S.A. and Banco Modal S.A. and Subsidiaries(CONEF)**

### **Notes to the Financial Statements at December 31, 2010 and 2009 All amounts in R\$ thousands**

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- (iii) Deferred charges - basically comprise improvements to leasehold properties, recorded at cost of acquisition and amortized on the straight-line method, considering the term of the lease. According to the provision of Resolution N° 3,617/08, the financial institutions now exclusively record in Deferred Assets the pre-operating expenses with restructuring which will effectively contribute to the increase of the income for more than one fiscal year and which do not constitute only a reduction of cost or addition in operating efficiency, allowing the permanence of balances existing at September 30, 2008 until their effective write-off.
- (iv) Intangible assets - comprise mainly licenses for the use and the development of software applications. They are amortized on the straight line method and consider an estimated useful life taking into account the future economical benefits that will be generated.

#### **(h) Current and non-current liabilities**

Liabilities are stated at known or estimated values, including, when applicable, the related accrued charges and monetary and/or exchange variations on a daily pro rata basis.

#### **(i) Income tax and social contribution**

The provision for income tax is calculated at the rate of 15% on taxable income, plus, when applicable, an additional rate of 10% on taxable income in excess of R\$ 240. The provision for social contribution is calculated at the rate of 15% (9% until April 2008) on income before tax, adjusted in accordance with current legislation.

In January 2008, Provisional Measure No. 413/2008, subsequently converted into Law N° 11,272/08, altered the provisions of federal tax legislation, addressing mainly the Social Contribution on Net Income - ("Contribuição Social sobre o Lucro Líquido - CSLL"), the Social Integration Program ("Programa de Integração Social - PIS") and the Tax for Social Security Financing ("Contribuição para o Financiamento da Seguridade Social - COFINS").

According to Provisional Measure No. 449/08, the changes in the criteria for the recognition of revenue, costs and expenses used in the determination of the net income for the year, introduced by Law No. 11,638/07 and Articles No. 36 and No. 37 of the Provisional Measure mentioned above, will not have effects for purposes of determination of the taxable profit of the legal entities choosing the Transition Tax System ("Regime Tributário de Transição - RTT"), and should be considered for tax purposes, the accounting methods and criteria prevailing at December 31, 2007.

## **Banco Modal S.A. and Banco Modal S.A. and Subsidiaries(CONEF)**

### **Notes to the Financial Statements at December 31, 2010 and 2009 All amounts in R\$ thousands**

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#### **(j) Derivative financial instruments**

Transactions with derivative financial instruments are recorded as follows:

- Options - the nominal values of option agreements for the purchase of shares, financial assets and commodities, recorded and to exercise, are recorded in memorandum accounts. Premiums received and/or paid when the operations are contracted, are recorded in equity accounts, adjusted to their market quotations, remaining in these accounts up to the effective date for the exercise of the option, when they are written-off as a reduction or increase in the cost of the asset or right, if the option is exercised, or as revenue or expense, in case the option is not exercised.
- Future market - contracts for transactions of financial assets and commodities in the futures market are recorded in memorandum accounts. These contracts are adjusted daily according to the type of asset and its maturity and the adjustments are recognized monthly in the result.
- Swap - swap contracts are recorded in memorandum accounts at the nominal amounts. The differences payable or receivable are recorded in equity accounts with a corresponding entry to the statement of income and monthly adjusted to its market value.
- Forward transactions - contracts for forward transactions of financial assets and commodities are recorded in memorandum accounts. The adjustments relating to these contracts are calculated daily and recognized in the statement of income, with a corresponding entry to equity accounts and monthly adjusted to its market value.

Derivative financial instruments are valued at market value and the appreciation or devaluation in the value, in accordance with the respective classifications, is recorded as follows:

- (i) not to be used as a hedge: recorded in results for the year;
- (ii) to be used as a market risk hedge: recorded in results for the year;
- (iii) to be used as a cash flow hedge: the appreciation or devaluation in the value of the effective portion of the hedge is recorded with a corresponding entry to a specific stockholders' equity account, until the maturity of the transactions.

#### **(k) Adjustment to market value**

The adjustment to market value of securities and derivative financial instruments is based on quotations of prices and market agents and on pricing models usually adopted by the financial institutions and their representative associations. Consequently, upon the financial settlement of these items, the actual results may be different in relation to the estimates.

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(l) **Reduction of the recoverable value of non-financial assets**

Based on the analysis of management, if the accounting value of the non-financial assets of the Bank, except for other assets and tax credits, surpasses its recoverable value, an impairment loss is recognized in the result for the year.

**3 Financial Statements of the Financial  
Economic Consolidation - CONEF**

The financial statements of the CONEF were prepared in conformity with the consolidation principles prescribed by the BACEN in COSIF No. 1.32 and No. 1.21, applying the accounting standards of Brazilian Corporation Law when they are not conflicting. Therefore, these financial statements do not include the consolidation of the credit rights funds (Note 4(a)).

The consolidation process of the balance sheet and statement of income reflects the aggregation of the balances of the assets, liabilities, income and expense accounts, according to their nature, together with the elimination of (a) participation in capital, accumulated results and investments and (b) the balances of current accounts and other asset and/or liability accounts maintained between institutions and companies whose balance sheets are consolidated.

The consolidated financial statements at December 31, 2010 and 2009 comprise those of Banco Modal S.A. and subsidiaries Modal Assessoria Financeira Ltda. and Modal Asset Management Ltda. and, at December 31, 2009 comprehended Modal Energy S.A. and Modal Asset Management Ltda. (Note 8).

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**4 Marketable Securities and Derivative  
Financial Instruments**

**(a) Marketable securities**

	Maturity (i)	2010			2009		
		Restated cost	Market	Unrealized gain (cost)	Restated cost	Market	Unrealized gain (cost)
Own portfolio							
Trading securities							
Shares of listed companies		28,681	29,032	351	18,700	20,039	1,339
		<u>28,681</u>	<u>29,032</u>	<u>351</u>	<u>18,700</u>	<u>20,039</u>	<u>1,339</u>
Securities available for sale							
Quotas of Investment Funds							
In Credit Rights - Quotas Senior		1,303	1,303		66,074	66,074	
In Credit Rights - Subordinated quotas (ii)		12,775	12,775		7,783	7,783	
Others		15,377	15,377		10,063	10,063	
Promissory notes (iii)	Up to February 2011	87,122	86,963	(159)			
National Treasury Bills	Up to July 2012	52,653	52,499	(154)	26,782	26,743	(39)
Financial Treasury Bills	Up to March 2015	63,227	63,231	4	45,308	45,311	3
National Treasury Notes	Up to May 2015	82,753	83,015	262	73,356	73,438	82
		<u>315,210</u>	<u>315,163</u>	<u>(47)</u>	<u>229,366</u>	<u>229,412</u>	<u>46</u>
		<u>343,891</u>	<u>344,195</u>	<u>304</u>	<u>248,066</u>	<u>249,451</u>	<u>1,385</u>
Subject to repurchase agreements							
Securities available for sale							
Financial Treasury Bills	Up to September 2014	13,304	13,304		33,687	33,686	(1)
National Treasury Notes	Up to May 2015	200,840	200,853	13	162,226	162,292	66
		<u>214,144</u>	<u>214,157</u>	<u>13</u>	<u>195,913</u>	<u>195,978</u>	<u>65</u>
Subject to guarantees							
Trading securities							
Shares of listed companies		21,908	22,337	429			
		<u>21,908</u>	<u>22,337</u>	<u>429</u>			
Securities available for sale							
Debentures	In April 2013				22,396	22,478	82
National Treasury Bills	Up to July 2011	15,232	15,202	(30)	73,678	73,477	(201)
Financial Treasury Bills	Up to September 2014	3,297	3,297		10,458	10,457	(1)
National Treasury Notes	Up to May 2015	61,198	62,200	1,002	4,471	4,484	13
		<u>79,727</u>	<u>80,699</u>	<u>972</u>	<u>111,003</u>	<u>110,896</u>	<u>(107)</u>
		<u>101,635</u>	<u>103,036</u>	<u>1,401</u>	<u>111,003</u>	<u>110,896</u>	<u>(107)</u>

(i) For purposes of presentation, the securities available for sale, except debentures, are presented in current assets, independently of their respective maturities. .

(ii) The quotas of the investment funds are represented by subordinated quotas of the "Modal Recebíveis Fundo de Investimento em Direitos Creditórios", constituted as an open condominium without a duration term, administered by the Bank and managed by Modal Asset Management Ltda. Such quotas can support eventual losses resulting from credit rights of the portfolio of the fund. At December 31, 2010, the fund had a portfolio of credit rights amounting to R\$ 32,638 (2009 -R\$ 20,902) with an allowance for possible losses amounting to R\$ 1,449 (2009 -R\$ 862). The value in subordinated quotas held by the Bank at December 31, 2010 represented 20% (2009 - 19%) of the Fund's stockholders' equity.

(iii) The market value is net of a provision for credit risk amounting to R\$ 159.

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The adjustment to market value of trading securities was recorded in results for the year. Unrealized gains (losses) arising from the adjustment to market value of securities available for sale were recorded in the respective accounts of the assets, with a corresponding entry to a specific stockholders' equity account, as shown below:

	<u>2010</u>	<u>2009</u>
At January 1	4	4,220
Adjustment in specific stockholders' equity account (Note 13(f))	<u>1,093</u>	<u>(4,216)</u>
At December 31, 2010	<u><u>1,097</u></u>	<u><u>4</u></u>

**(b) Derivative financial instruments**

	<u>2010</u>			<u>2009</u>		
	<u>Restated cost</u>	<u>Market value</u>	<u>Unrealized result</u>	<u>Restated cost</u>	<u>Market value</u>	<u>Unrealized result</u>
<b>Receiving position</b>						
Premiums on options to be exercised	19,224	20,493	1,269	30,979	22,793	(8,186)
Future sales receivable	450	488	38	51	52	1
Differential on swap transactions (i)	<u>11,517</u>	<u>14,547</u>	<u>3,030</u>	<u>37,127</u>	<u>33,351</u>	<u>(3,776)</u>
	<u>31,191</u>	<u>35,528</u>	<u>4,337</u>	<u>68,157</u>	<u>56,196</u>	<u>(11,961)</u>
Current assets	<u>19,154</u>	<u>18,769</u>		<u>28,903</u>	<u>21,149</u>	
Long-term assets	<u><u>12,037</u></u>	<u><u>16,759</u></u>		<u><u>39,254</u></u>	<u><u>35,047</u></u>	
<b>Paying position</b>						
Premiums on written options	17,982	20,145	(2,163)	29,657	22,096	7,561
Future purchase payable	368	371	(3)			
Differential on swap transactions	1,306	1,630	(324)	4,361	4,425	(64)
Others	<u>345</u>	<u>345</u>		<u>2,415</u>	<u>2,415</u>	
	<u>20,001</u>	<u>22,491</u>	<u>(2,490)</u>	<u>36,433</u>	<u>28,936</u>	<u>7,497</u>
Current liabilities	<u>16,128</u>	<u>18,682</u>		<u>30,213</u>	<u>25,490</u>	
Long-term liabilities	<u><u>3,873</u></u>	<u><u>3,809</u></u>		<u><u>6,220</u></u>	<u><u>3,446</u></u>	

(i) The market value is net of a provision for credit risk amounting to R\$ 2,233 (2009 - R\$ 2,233).

The adjustments to market values of derivative financial instruments, carried out in the year, amounting to R\$ 6,311 (2009 - R\$ 8,497) were recorded in the results for the year "Results on derivative financial instruments".

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The Bank participates in transactions with financial instruments with the objective of meeting its own and clients' needs, to reduce exposure to market, currency and interest rate risks. These risks are managed using policies that define the strategy of the operation, monitoring controls and position limits.

The Bank has not contracted operations with derivative financial instruments accounted for as cash flow hedge and market hedge at December 31, 2010 and 2009.

The operations with these instruments are registered at the Futures and Commodities Exchange ("Bolsa de Mercadoria & Futuros - BM&F"), the CETIP S.A. - Organized Counter of Assets and Derivatives ("Balcão Organizado de Ativos e Derivativos"). and/or the Brazilian Custody and Settlement Company (Central Brasileira de Liquidação e Custódia - CBLC). For the operations maintained with these institutions at December 31, 2010, margins amounting to R\$ 102,991 (2009 - R\$ 77,969) in guarantee were required and they were represented by public securities and listed companies' shares.

Commitments assumed due to operations with derivatives recorded in memorandum accounts at December 31 were as follows:

#### (i) By index

	2010			2009	
	<u>Custody location</u>	<u>Purchased position</u>	<u>Sold position</u>	<u>Purchased position</u>	<u>Sold position</u>
<b>Options market</b>					
Shares					
Put options	CBLC	6,600		3,800	
Financial assets					
Purchase options	BM&F	21,937,071	23,424,550	11,029,960	11,027,750
Put options	BM&F	7,284,020	7,285,826	9,577,300	9,576,706
<b>Future market</b>					
Interest rate	BM&F	670,969	3,663,864	908,690	303,991
Currency	BM&F	25,180	90,510	92,593	
Index	BM&F		17,513	19,372	
Exchange coupon	BM&F	328,958	20,202	251,690	48,548
<b>Forward market</b>					
Currency	CETIP	10,593	7,805	404	
<b>Swap"</b>					
Interest rate	CETIP	302,456	66,302	287,321	19,197
Currency	CETIP	65,946	288,579	17,693	254,275
Interest rate	BM&F	11,476	62,531	37,456	225,380
Prices indexes	BM&F	62,760	12,309	221,508	36,200
<b>Others</b>					
Interest rate	CETIP	356		2,528	
Stock exchange index	CETIP		701		4,943

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**(ii) By maturity**

	<u>Up to 30 days</u>	<u>From 31 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>After 360 days</u>	<u>Total</u>	
						<u>2010</u>	<u>2009</u>
<b>Options market</b>							
Shares							
Purchased position	6,600					6,600	3,800
Financial assets							
Purchased position	7,227,050	65,821		21,928,000	220	29,221,091	20,607,260
Sold position	8,718,800	69,356		21,922,000	220	30,710,376	20,604,456
<b>Future market</b>							
Purchased position	25,180		49,561		950,366	1,025,107	1,272,345
Sold position	23,229	108,023		2,595,099	1,065,738	3,792,089	352,539
<b>Forward market</b>							
Purchased position	1,757	6,620	2,216			10,593	404
Sold position			3,285	4,520		7,805	
<b>Swap"</b>							
Receiving position		3,572	50,560	66,683	321,823	442,638	563,978
Paying position		3,366	51,001	66,122	309,232	429,721	535,052
<b>Others</b>							
Receiving position		356				356	2,528
Paying position		701				701	4,943

**5 Risk Management**

The management of the risks of operations is performed through internal policies and multi disciplinary teams, independent from the Bank's business areas that monitor the sundry risks inherent to the operations and/or processes, including market, liquidity, credit and operating risks. These management structures are described in the annual reports and/or the Bank's sites and can be summarized as follows:

**(a) Market risk**

The management of market risks on the operations is performed through control and limit policies defined by a Risk Committee. The Risk Committee is formed by senior management, the economic department and the risk area, which is independent from the Bank's business areas. Before the market opens, reports are released, which include a value-at-risk analysis, a Monte Carlo simulation and the portfolio's exposure to the main risk factors at the moment. Tests are carried out periodically to validate the calculation methodology (back test). The Risk Report also presents market stress testing and historical crises simulations, which are used for the assessment of the leverage utilized.

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### **Notes to the Financial Statements at December 31, 2010 and 2009 All amounts in R\$ thousands**

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#### **(b) Liquidity risk**

Liquidity risk is managed by adopting controls that assure the allocation of funds to assets of high quality and liquidity, based on own equity and/or capital obtained from well-known counterparties at rates which are in line with the market. This control also includes the analysis of possible mismatches in time between assets and liabilities and the resulting adjustments needed to adequate them.

#### **(c) Credit risk**

The Bank has a policy for granting credit whereby procedures for assessment of clients and counterparties are established. An assessment of each client or counterparty is made prior to realizing operations and includes objective analyses of financial data, comparative ratios, cash flow, working capital, coverage of interest rates and quality of the guarantees provided, as well as subjective analyses including data on the economic sector, regulatory environment and market share. The limits are approved by the Credit Committee and are regularly reviewed together with the sufficiency of the guarantees provided.

#### **(d) Operating risk**

Operating risks are managed by an area created specifically for this purpose, which is responsible for evaluating, monitoring and controlling the risks arising from systems, people, internal processes or also external events. The management of operating risks is carried out through the analysis of the main processes, identifying risks and suggesting the respective mitigating controls, using a system of internal controls and measurement of risks, which also enables the administrators of each process to evaluate the controls, as well as the action plans. In order to ensure the security of all procedures executed at Modal, the operating risk area has a close relationship with the Internal Audit area and the Compliance Committee.

### **6 Credit Operations**

Credit operations are classified in nine risk levels and the allowance for loan losses is made based on the clients' rating under the risk levels defined by the National Monetary Council ("Conselho Monetário Nacional - CMN"). This rating considers, among other factors, a periodic analysis of the operation, overdue payments, the client's history and guarantees provided, when applicable.

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The classification of loan operations is as follows:

### (a) By type of client, economic and risk level

Type of credit	Type of client	Economic activity	Risk level	2010		2009		Allowance percentage according to Resolution CMN No. 2.682/99
				Classification of portfolio by risk	Impairment of trade receivables	Classification of portfolio by risk	Impairment of trade receivables	
Loans and discounted notes	Corporate	Industry	AA	35,451		57,287		
	Corporate	Services	AA			5,026		
	Corporate	Industry	A	64,349	(322)	25,452	(127)	0.50%
	Corporate	Commerce	A	1,356	(7)	2,156	(11)	0.50%
	Corporate	Services	A	63,530	(318)	9,456	(47)	0.50%
	Individual	Individual	A	474	(2)	400	(2)	0.50%
	Corporate	Industry	B	63,429	(634)	28,400	(284)	1.00%
	Corporate	Commerce	B			5,974	(60)	1.00%
	Corporate	Services	B	40,895	(409)	14,134	(141)	1.00%
	Corporate	Industry	C	3,513	(105)	30,548	(916)	3.00%
	Corporate	Commerce	C			2,038	(61)	3.00%
	Corporate	Services	C	10,458	(314)	22,619	(679)	3.00%
	Corporate	Industry	E			3,532	(1,060)	30.00%
	Corporate	Industry	F			2,361	(1,180)	50.00%
	Individual	Individual	G			89	(62)	70.00%
	Corporate	Industry	H			125	(125)	100.00%
	Corporate	Commerce	H	62	(62)			100.00%
Financing	Corporate	Services	B	5,787	(58)			1.00%
	Corporate	Commerce	C	3,333	(100)			3.00%
Onlendings FINAME/BNDES	Corporate	Industry	B			62	(1)	1.00%
	Individual	Individual	B			77	(1)	1.00%
Rights for loans of shares	Corporate	Services	AA	432				
Advances on Exchange contracts - ACC (i)	Corporate	Industry	A	5,307	(26)			0.50%
	Corporate	Industry	B	7,643	(76)	22,085	(221)	1.00%
	Corporate	Services	B			10,592	(106)	1.00%
	Corporate	Industry	C	5,343	(160)			3.00%
	Corporate	Commerce	C	1,733	(52)			3.00%
Advances on exchange delivered ACE (i)	Corporate	Industry	B	522	(5)			1.00%
	Corporate	Services	C			287	(8)	3.00%
Other	Corporate	Industry	A	3,787	(19)			0.50%
	Corporate	Services	A	2,440	(12)			0.50%
	Corporate	Industry	B	245	(3)			1.00%
	Corporate	Commerce	B	41	(1)			1.00%
	Corporate	Services	B	322	(3)			1.00%
	Corporate	Services	H	90	(90)			100.00%
				<u>320,542</u>	<u>(2,778)</u>	<u>242,700</u>	<u>(5,092)</u>	
Current				<u>230,767</u>	<u>(2,778)</u>	<u>162,020</u>	<u>(5,092)</u>	
Long-term				<u>89,775</u>		<u>80,680</u>		

(i) Balances recorded as reductions in the account "Other liabilities" and in the account "Income receivable from advances granted", as shown in Note 7.

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**(b) By maturity**

	<b>2010</b>						
	<b>Overdue</b>			<b>Falling due</b>			
	<b>Up to 90 days</b>	<b>From 91 to 180 days (ii)</b>	<b>From 181 to 360 days (ii)</b>	<b>Up to 180 days</b>	<b>From 181 to 360 days</b>	<b>After 360 days</b>	<b>Total</b>
Loans and discounted notes	1,015		62	144,831	48,164	89,445	283,517
Financing				7,918	1,202		9,120
Rights for loans of shares				432			432
Advances - ACC				13,106	6,920		20,026
Advances - ACE				522			522
Other	3		90	6,172	330	330	6,925
	<u>1,018</u>		<u>152</u>	<u>172,981</u>	<u>56,616</u>	<u>89,775</u>	<u>320,542</u>
							<b>2009</b>
	<b>Overdue</b>			<b>Falling due</b>			
	<b>Até 90 dias</b>	<b>De 91 a 180 dias (ii)</b>	<b>De 181 a 360 dias (ii)</b>	<b>Até 180 dias</b>	<b>De 181 a 360 dias</b>	<b>Após 360 dias</b>	<b>Total</b>
Loans and discounted notes	1,474	2,528	125	89,881	34,909	80,680	209,597
Onlendings FINAME/BNDES				118	21		139
Advances - ACC				27,165	5,512		32,677
Advances - ACE				287			287
	<u>1,474</u>	<u>2,528</u>	<u>125</u>	<u>117,451</u>	<u>40,442</u>	<u>80,680</u>	<u>242,700</u>

(ii) Note 2(e)

**(c) Credit assignment**

The Bank carried out credit assignments mainly to investment funds in credit rights and multi-market under its administration/management or its subsidiary Modal Asset Management Ltda., in compliance with the conditions of cession and the eligibility criteria defined in the regulations of the funds mentioned above and in accordance with CMN Resolution No. 2,836/01. The amounts of the operations effected are as follows:

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	<b>Operations with material retention of risks and benefits (i)</b>	<b>Operations without material retention of risks and benefits</b>	<b>2010</b>	<b>2009</b>
Book value of credits assigned	482,071	23,148	505,219	395,813
Trading value of credits assigned	<u>481,960</u>	<u>20,332</u>	<u>502,292</u>	<u>385,172</u>
Net loss on credit assignments (ii)	<u>(111)</u>	<u>(2,816)</u>	<u>(2,927)</u>	<u>(10,641)</u>

(i) During the year, operations with material retention of risks and benefits were granted to "Modal Recebíveis Fundo de Investimento" in Credit Rights. The Bank holds subordinated quotas of "Modal Recebíveis Fundo de Investimento" in Credit Rights (Note 4(a)).

(ii) The results of the assignments are accounted and stated in Income (Expenses) from Financial Intermediation - credit operations.

**(d) Movement in the impairment of trade receivables**

	<b>2010</b>	<b>2009</b>
At the beginning of the year	5,092	9,336
Reversed during year	(2,212)	(254)
Credits written-off during the year	(214)	(4,232)
Recovery of credits during the year	<u>112</u>	<u>242</u>
At the end of the year	<u>2,778</u>	<u>5,092</u>

During the year, operations amounting to R\$ 128,600 (2009 - R\$ 105,092) were renegotiated.

**(e) Connected assets operations**

On December 31, the balance of the connected assets operations and the related fund raising, in accordance with CMN Resolution No. 2,921/02, as well as the results verified for the year then ended, are as follows:

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	<u>Income/(Expenses)</u>	
	<u>2010</u>	<u>2009</u>
Connected assets operations		
Credit operations	35,117	6,268
Marketable securities - promissory notes	<u>55,239</u>	<u>239</u>
	<u>90,356</u>	<u>6,507</u>
Connected assets obligations		
Time deposits	50,188	(188)
Mortgage loan bills (see Note 9)	<u>34,520</u>	<u>(5,496)</u>
	<u>84,708</u>	<u>(5,684)</u>

On December 31, 2010, there was no breach of contract in the connected assets.

**7 Foreign Exchange Portfolio**

	<u>2010</u>	<u>2009</u>
<b>Other receivables</b>		
Exchange purchases pending settlement	19,515	26,594
Rights on exchange sale		2,611
Income receivable from advances (i)	<u>263</u>	<u>822</u>
	<u>19,778</u>	<u>30,027</u>
<b>Other liabilities</b>		
Exchange sales pending settlement		2,611
Liabilities from exchange purchases	20,285	32,142
Advances on foreign exchange contracts (i)	<u>(20,285)</u>	<u>(32,142)</u>
		<u>2,611</u>

(i) Note 6(a)

**8 Investments in Subsidiaries**

The investments in the Bank's subsidiaries are constituted by the wholly owned subsidiaries Modal Energy S.A., Modal Assessoria Financeira Ltda. and Modal Asset Management Ltda. The main subsidiary is Modal Asset Management Ltda., that actively operates in the management of investment funds and/or portfolio of securities.

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	<b>2010</b>		<b>2009</b>	
	<b>Modal Assessoria Financeira Ltda. (ii)</b>	<b>Modal Asset Management Ltda.</b>	<b>Modal Energy S.A.</b>	<b>Modal Asset Management Ltda.</b>
Number of shares/quotas held	199,987	498,500	100	996,998
Participation of Banco Modal S.A. - %	99.99%	83.04%	100%	100%
Capital	200	997	146	997
Equity	775	997	154	997
Profit for the year	575	5,505	8	9,762
Book value of investments	775	828	154	997
Equity in the results of investees	575	5,083	8	9,762

During the year, subsidiary companies distributed/provided dividends amounting to R\$ 5,505 (2009 - R\$ 9,770).

- (i) During 2009, the capital of the wholly-owned subsidiary Modal Trading S.A. was reduced by R\$ 2,168, and later the participation in this investment was transferred for the amount of R\$ 150. The equity accounting result created by this subsidiary company in the year was R\$ 148.
- (ii) During the first six-month period of 2010, a participation in Modal Assessoria Financeira Ltda. was acquired.
- (iii) During the second six-month period of 2010, the capital of the wholly-owned subsidiary Modal Energy S.A was reduced by R\$ 152 and later the participation in this investment was transferred for the amount of R\$ 7. The participation in Modal Asset Management Ltda was reduced by the amount equivalent to 16.96% of the shares, through the transfer of quotas at their book value.

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**9 Fund Raising**

	Maturity range (i)			2010	2009
	Up to 180 days	From 181 to 360 days	After 360 days	Total	Total
Demand deposit	11,973			11,973	5,421
Interfinancial deposits					5,190
Time deposits	160,953	3,829	263,720	428,502	281,760
Other deposits	4,654			4,654	100
Funds obtained in the open market	402,483			402,483	245,153
Funds from acceptance and issue of securities (see Note 6(e))					
Mortgage loan bills	2,490	35,521		38,011	58,717
Agribusiness credit notes	7,221	75		7,296	13,684
Total	589,774	39,425	263,720	892,919	610,025

(i) The time deposits and the funds from acceptance and issue of securities are classified in accordance with the grace period.

**10 Other Liabilities - Subordinated Debts**

On March 27, 2006, the Bank obtained funds abroad amounting to US\$ 30,000,000 through the issue of a subordinated debt instrument, restated by reference to the exchange variation and the London Interbank Offered Rate (LIBOR) of one year plus 2% per annum (p.a.). Interest is payable annually and the final maturity is in March 2015. The Brazilian Central Bank approved the eligibility of this instrument as Level II of the Referential Equity (PR).

**11 Borrowings and Onlendings**

**(a) Borrowings**

**(i) In the country**

Represented by borrowings from BACEN, subject to the LIBOR rate plus 1.5% to 2.71% per year with maturities up to May 2010, whose resources were used to disburse Advance on Export Contracts ("Adiantamentos sobre Contratos de Câmbio - ACC) and Advances on Exchange Bills Delivered ("Adiantamento sobre Cambiais Entregues - ACE"). In May 2010, these borrowings were settled (2009 - R\$ 18,117).

**(ii) Abroad**

Represented by borrowings from financial institutions abroad, subject to the LIBOR rate plus 1.5% to 2.71% per year with maturity up to June 2011. On December 31, 2010, the updated value amounted to R\$ 8.469 (2009 - R\$ 1.747).

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**(b) Onlendings**

**In the country**

Represented by borrowings from the National Bank for Economic and Social Development ("Banco Nacional de Desenvolvimento Econômico Social - BNDES") and Government Agency for Machinery and Equipment Financing ("Fundo de Financiamento para Aquisição de Máquinas e Equipamentos Industriais - FINAME"), subject to Long-term Interest Rates ("Taxa de Juros de Longo Prazo - TJLP") plus 1.0% to 3.0% per year with maturity up to September 2010. In September 2010, they were fully settled (2009 - R\$ 139 in current liabilities).

**12 Income tax and social contribution**

The reconciliation between the amounts calculated considering the nominal rates and the amounts recorded in the statement of income for the year is as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Income tax</b>	<b>Social contribution</b>	<b>Income tax</b>	<b>Social contribution</b>
Result before taxation and profit sharing	27,450	27,450	20,582	20,582
Profit-sharing	(5,743)	(5,743)	(3,883)	(3,883)
Interest on capital	(9,000)	(9,000)	(11,600)	(11,600)
Adjustment to market value of securities and derivatives	(4,392)	(4,392)	7,177	7,177
Equity in the results of investees	(5,663)	(5,663)	(9,918)	(9,918)
Allowance for loan losses	(2,727)	(2,727)	387	387
Provision for COFINS with suspended liabilities (Note 15)	4,685	4,685	4,133	4,133
Adjustment of interest operations in the future liquidation market	(441)	(441)	(12,688)	(12,688)
Other permanent additions (exclusions)	707	699	456	344
Calculation basis before the tax loss /Tax loss carryforward	4,876	4,868	(5,354)	(5,466)
Deduction Tax Loss / Tax loss carryforward	(1,463)	(1,461)		
Calculation basis	3,413	3,407	(5,354)	(5,466)
Nominal rate- %	25%	15%	25%	15%
Income tax and social contribution	(829)	(511)		
Fiscal incentive	33			
Income tax and social contribution	(796)	(511)		
Constitution (reversal) of deferred tax liability on the adjustment to market value - securities and derivatives	(1,098)	(659)	1,794	1,077
Constitution (reversal) of tax credits on allowance for loan losses and other temporary differences	(14)	(8)	(764)	(443)
Deferred income tax and social contribution	(1,112)	(667)	1,030	634
Income tax and social contribution - Bank	(1,908)	(1,178)	1,030	634
Income tax and social contribution - Modal Energy			(2)	(1)
Income tax and social contribution - Modal Assessoria	(53)	(22)		
Income tax and social contribution - Modal Asset	(888)	(328)	(1,261)	(462)
	(2,849)	(1,528)	(233)	171
Total CONEF		(4,377)		(62)

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The tax credits and deferred tax liabilities were determined as mentioned in Note 2, and are presented as follows:

	<u>2010</u>	<u>2009</u>
Other credits - sundry		
Deferred tax assets		
Adjustment to market value - securities and derivatives	891	4,743
Impairment of trade receivables	7,323	8,458
Tax loss/tax loss carryforward	1,573	2,158
Other provisions - COFINS	<u>9,107</u>	<u>7,233</u>
	<u>18,894</u>	<u>22,592</u>
Current	845	2,450
Long-term	18,049	20,142
Other liabilities - deferred taxes and contributions		
Deferred tax liabilities		
Adjustment to market value - securities and derivatives	2,723	4,379
Interest operations - future market	<u>990</u>	<u>814</u>
	<u>3,713</u>	<u>5,193</u>
Current	762	2,627
Long-term	2,951	2,566

**13 Equity**

**(a) Capital**

Capital comprises 19,669 common shares (2009 - 19,669) and 19,669 nominative preferred shares (2009 - 19,669), with no par value

At the Extraordinary General Meeting held on June 30, 2009, the stockholders approved the capital increase of the Bank of R\$ 4,930, through the issuance of 952 shares, divided into 476 new common shares and 476 new preferred shares. This increase was confirmed by BACEN on September 15, 2009.

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At the Extraordinary General Meeting held on August 31, 2009, the stockholders approved the capital increase of the Bank of R\$ 47,000, through the incorporation of the statutory reserve, without the issuance of new shares, which was confirmed by BACEN on October 19, 2009

At the Extraordinary General Meeting held on December 28, 2009, the stockholders approved the capital increase of the Bank of R\$ 4,930, through the issuance of 944 shares, divided into 472 new common shares and 472 new preferred shares. This increase was confirmed by BACEN on February 3, 2010.

At the Extraordinary General Meeting held on December 31, 2009, the stockholders approved the distribution of dividends, with a gross value of R\$ 2,000.

At the Extraordinary General Meeting held on June 30, 2010, the stockholders approved the distribution of dividends, from the statutory reserve, and interest on capital, with a gross value of R\$ 2,500 and R\$ 4,000 respectively.

At the Extraordinary General Meeting held on December 29 and 30, 2010, the stockholders approved the distribution of interest on capital of R\$ 2,900 and R\$ 2,100.

#### **(b) Share rights**

The stockholders of the Bank are assured a minimum dividend of 6% of capital, not to be less than 25% of net income adjusted in accordance with corporate law.

Preferred shares have no voting rights and have priority on the return of capital, without the payment of a premium in the case of the Bank's liquidation, and the right to a minimum dividend of R\$ 0.01 per share.

According to Law No. 9,249/95, Article 9, paragraph 7, the amount paid or credited to the stockholders, as interest on capital, can be considered in the calculation of the minimum compulsory dividends.

#### **(c) Interest on capital**

In the year ended December 31, 2010, using the rights established in Article 9 of Law No. 9,249/95, the Bank assigned to its stockholders interest on capital amounting to R\$ 9,000, corresponding to R\$ 228.79 per share (2000 - R\$ 11,600; R\$ 151.18 per share), which reduced the income tax and social contribution charge by R\$ 3,600 (2009 - R\$ 4,640).

To comply with the regulations of the federal tax administration, the Bank recorded the amount of interest on capital with "Other operating expenses" and, subsequently, for purposes of the presentation of the financial statements, reversed this amount in the same account and presented it as a distribution of net income, in the statement of changes in equity.

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**(d) Legal reserve**

This reserve is constituted at an amount equivalent to 5% of the net income computed each year, up to the limit established by Brazilian Corporation Law.

**(e) Statutory reserve**

This reserve is constituted with the remaining balance of adjusted net income, after deducting the distribution of dividends, in order to be incorporated into capital in the future and/or to be distributed to the stockholders. The balance of this reserve together with the other revenue reserves cannot exceed the issued capital, otherwise the excess will have to be capitalized or distributed.

**(f) Adjustment to market value - securities and derivatives**

The adjustment represents unrealized gains and losses, arising from the adjustment to market value of securities classified as "available for sale", as stated in Note 4. These gains and losses are transferred to the corresponding statement of income accounts on the date on which they are effectively realized.

	<u>2010</u>	<u>2009</u>
At January 1	2	2,531
Adjustment of securities (Note 4)	1,093	(4,216)
Tax effects	<u>(436)</u>	<u>1,687</u>
At December 31	<u>659</u>	<u>2</u>

**14 Operational Limit (Basel Agreement)**

The financial institutions have to maintain a minimum stockholders' equity equivalent to 11% of their consolidated assets weighted by risk factors, increased by percentages on the credit risk of swap operations, on exposures in gold and on assets and liabilities linked to variations in foreign exchange and on interest rate variations, in accordance with rules and instructions of BACEN.

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The financial institutions should permanently maintain the value of the Regulatory Capital ("Patrimônio de Referência - PR"), computed in accordance with Resolution No. 3,444, of February 28, 2007, consistent with the risks of their activities. The value of Regulatory Capital should be higher than the value of the Stockholders' equity required ("Patrimônio de Referência Exigido - PRE"), which should be calculated considering, at least, the sum of the following exposure portions: portion related to the exposures weighted by the weighting credit risk factor attributed (PEPR), portion related to exposure risks in gold, foreign currency and operations subject to exchange variation (PCAM), portion related to the risk of operations subject to interest rates variation and classified in the negotiation portfolio, according to Resolution No. 3,464, of June 26, 2007 (PJUR), portion related to the risk of operation subject to the variation of the price of commodities (PCOM), portion related to the risk of operations subject to variation of the price of shares (PACS), classified in the negotiation portfolio, according to Resolution No. 3,464, of 2007 and the portion related to the operating risk (POPR).

At December 31, 2009, the Bank was classified within this operational limit, as shown below:

Regulatory capital - Level I	208,317
Regulatory capital - Level II	41,709
Deduction of the raising instruments (Resolution No. 3,444/07 of CMN)	<u>(5,641)</u>
Total regulatory capital - (a)	244,385
Capital allocation	
Credit risk	100,941
Market risk	35,575
Operating risks	<u>15,031</u>
Required regulatory capital (b)	<u><u>151,547</u></u>
Margin (a-b)	<u><u>92,838</u></u>
Basel index	<u><u>18%</u></u>

**15 Contingencies**

Contingent liabilities arising from litigations or notifications of the supervising entities are assessed by management with the support of the legal advisors of the Bank, considering the concepts defined in Resolution No. 3,823/09, and are recognized in the financial statements if they are classified as probable losses generating a probable outflow of resources for the settlement of the obligations and if the amounts involved can be measured with reasonable assurance. For the law suits whose evaluation of loss is considered possible, no accounting provision is recognized; however they are disclosed in a note. In the case when the chances of loss are considered remote, no provision is recognized and no disclosure is made in a note.

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The Bank is a party in law suits and administrative processes arising from the normal course of operations, involving tax matters among others.

Management, based on the information from its legal advisors and analysis of the pending judicial demands, constituted a provision in an amount considered sufficient to cover the losses estimated with the suits in progress.

The contingent assets are recognized in the financial statements only when there is certainty of collection or unappealable favorable court decisions have been obtained.

Similarly, liabilities relating to pending litigations are maintained in the financial statements until the final unappealable favorable court decision. In the account "Other liabilities - tax and social security" in long-term liabilities, the liability is recorded related to the discussion with the federal public administration amounting to R\$ 22,768 (2000 - R\$ 18,083) assessed as possible and constituted based on a sentence issued in the files of the writ of mandamus with a request for an injunction, when the Bank started to pay the COFINS only on the revenue of services, pleading the unconstitutionality of the increase of the calculation basis of that contribution and constituting a liability for the remaining balance up to the final decision.

During 2010, the Bank constituted a provision of R\$ 4,685 (2009 - R\$ 4,133), of which R\$ 1,523 (2009 - R\$ 1,523) relates to restatements at the Special System for Settlement and Custody ("Sistema Especial de Liquidação e Custódia - SELIC") rate.

There are no relevant contingencies considered as probable losses by the external lawyers.

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**16 Related Parties**

The operations between related parties with the Banco Modal S.A. for the years ended December 31, 2010 and 2009 are presented as follows:

	<u>2010</u>	<u>2009</u>
Assets		
Other credits - sundry	61	734
Derivative financial instruments	13,671	33,047
Income receivable	216	
Liabilities		
Demand deposits	17	20
Time deposits	16,742	70,367
LCA - Agribusiness credit note	4,938	5,302
LCI - Housing loan bills	377	655
Derivative financial instruments	357	3,919
LCI - Housing loan bills (Note 10)	51,312	54,157
Other liabilities - social and statutory	1,920	2,000
Other liabilities - sundry	37	37
Results		
Income from derivative financial instruments	42,200	29,325
Expenses with derivative financial instruments	(2,468)	(2,624)
Funding expenses	(6,138)	(5,114)
Income (expenses) with loans taken abroad	256	15,146
Income from services rendered	126	126
Expenses with services rendered	(442)	(442)
Losses with credit assignment	(111)	(10,532)
Expenses with interest on capital	(9,000)	(11,600)

**(a) Key management compensation**

Every two years, at an Ordinary General Meeting, the maximum monthly remuneration for all the managers is established, in accordance with the provisions of the By-law.

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**(i) Short-term benefit to managers**

	<u>2010</u>
Payroll	1,917
Interest on capital	9,000
Dividends	2,500
Profit sharing and results	300
Social charges	<u>694</u>
Total	<u>14,411</u>

**(ii) Other benefits**

Banco Modal does not have long-term or rescission contract benefits, neither remuneration based on shares for the key management personnel.

**(iii) Shareholding**

The members of the Board of Directors hold together 94% (2009 - 100% ) of the common and preferred shares of the bank (Note 13 a).

**17 Other information**

- (a) At December 31, 2010, the account "Other receivables - others" mainly comprised the prepayment of taxes to be offset amounting to R\$ 10,011 (2009 - R\$ 6,931), R\$ 18,894 (2009 - R\$ 22,592) of deferred tax assets as described in Note 12, R\$ 6,162 regarding credit securities receivable (2009, R\$ 300), R\$ 990 related to debtors for purchase of values and goods and R\$ 1,444 (2009 - R\$ 2,651) related to sundry domestic debtors.
- (b) Income from services rendered refers basically to the income from the management and administration of investment funds amounting to R\$ 513 (2009 - R\$ 98), CONEF R\$ 10,236 (2009 - R\$ 14,623) and commissions received for consulting, structured operations and revenues of guarantees for clients amounting to R\$ 12,861 (2009 - R\$ 10,059), CONEF R\$ 13,438 (2009 - R\$ 9,933). The net asset value of the funds managed by CONEF at December 31, 2010 totaled R\$ 3,089,157 (2009 - R\$ 3,308,143).

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- (c) At December 31, 2009, "Other operating income" refers substantially to income from exchange variations, amounting to R\$ 4,121 (2009 - R\$ 15,146), arising from liabilities for securities issued overseas (Note 10) and (2009 - R\$ 9,066 from loans in foreign currency).
- (d) At December 31, 2009, "Other operating expenses" refers substantially to income from exchange variations, amounting to R\$ 5,496 (2009- R\$ 5,023)
- (e) At December 31, 2009, the Bank had co-obligations for guarantees provided amounting to R\$ 485,499 (2009 - R\$ 343,648). Management does not expect losses arising from these operations.

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