

(A free translation of the original in Portuguese)

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***Modal Distribuidora  
de Títulos e Valores  
Mobiliários Ltda.***

***(CNPJ 05.389.174/0001-01)***

***Financial statements at***

***December 31, 2018***

***and independent auditor's report***





(A free translation of the original in Portuguese)

## ***Independent auditor's report***

To the Board of Directors and Stockholders  
Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

### **Opinion**

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We have audited the accompanying financial statements of Modal Distribuidora de Títulos e Valores Mobiliários Ltda (the "Institution"), which comprise the balance sheet as at December 31, 2018 and the statements of income, changes in equity and cash flows for the year and six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Modal Distribuidora de Títulos e Valores Mobiliários Ltda. as at December 31, 2018, and its financial performance and cash flows for the year and six-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN).

### **Basis for opinion**

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We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Institution in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other information accompanying the financial statements and the independent auditor's report**

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The Institution's management is responsible for the other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.



Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

### **Responsibilities of management and those charged with governance for the financial statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil, applicable to 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.

In preparing the financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.



Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial
- statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, March 29, 2019

*PricewaterhouseCoopers*  
PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

*Claudia Eliza Medeiros de Miranda*  
Claudia Eliza Medeiros de Miranda  
Contadora CRC 1RJ087128/O-0



## Decision on creation of MODAL DTVM (home broker modalmais) and later integration with *Digital Bank modalmais*

The controller Banco Modal (“Modal”) is bank whose owner that untiringly pursues continuing improvements to keep on offering creative solutions adequate to each moment and challenges presented by the market, always focused on meeting the needs of our customers. Within this context, Modal is distinguished in the Brazilian bank sector for its ability to creatively elaborate the best solutions for each customer, but not giving up the security and reliability that put it among the best and most complete institutions of the Brazilian market.

Taking advantage of all our expertise, set up capacity, all the back office structure modalmais already had, allied to the ability to generate businesses in all areas, we took a decision of creating our own distributor to enjoy of all this potential. Always prioritizing the delivery of genuine solutions to the customers.

Modal has the experience that is necessary to overcome any economic scenario. One of the engines to overcome obstacles is the total integration between the many areas of Grupo Modal. Acting as a whole, the teams are part of a bigger and united team, which works hard and is focused on its customers’ results. Whether it is a new real estate venture, the structuring of a fund or the issue of debentures, among the wide range of possibilities, the solutions are designed according to the needs and objectives of those who trust in Modal. The total integration between the areas, plus the lean structure and the talent of some of the best professionals of the country in many areas, are the basis of Modal success. Besides all the structuring promoted in the last years and the result is the consolidation of a long and mid-term succeeded strategy. This is the view that guides the set of areas such as Corporate Banking, Distribution, Investments Banking, Products, Merchant Banking, Infrastructure, Real Estate, Sales&Trading, Asset Management and Private Equity.

The **digital bank modalmais** is an initiative that aims to trail the path of excellence and innovation, in order to offer disruptive ways for each market moment , with the main objective of developing creative solutions to our customers. In this point of view, **modalmais** stands out in the Brazilian bank sector when it puts the efficient and dynamic results together with the safety and liability high level, placing it among the best and most complete institutions of the Brazilian territory.

With its market experience and state-of-the art technology tools, **modalmais** is able to face and successfully overcome challenges of any economic scenario. The coherent integration of the many areas of Grupo Modal is the ground for the flow of our processes, ensuring homogeneous communication that corroborates the delivery of results. All the fronts of the digital bank work for this same delivery, whether it is in a new real estate enterprise, in structuring a fund or in issuing debentures, among the wide range of possibilities that we can explore, the designed solutions are always in accordance with the needs and the objectives of those who rely on our brand. We can also add all the structuring promoted in the last years and the result is the consolidation of a long and mid-term succeeded strategy. This vision is the same that guides the Investment Bank that acts in structuring and coordinating big operations in the national and international markets. Besides the segments of Investment Banking, Corporate Banking and Fiduciary Administration. Grupo Modal also holds interest in Novus Capital, independent resource manager.

For 2019, modalmais will keep on investing in state-of-the-art technology, excellent service and fair price to its customers. The expectation is to close the year with 380,000 active customers and a wide range of modalmais own products, as well as third-parties’ products duly selected by experts with expertise in the market.

## DTVM business plan, obtained result and perspectives

The business plan considered the synergy gain that we would have with all the structure that Modal already had, and it would represent an important distribution channel of the bank's products for the market. For this reason, we created a totally interactive business portal ([www.modalmais.com.br](http://www.modalmais.com.br)), which enables to the investors many investment possibilities of Modal's products as well as products of other managers. During the development period, we concluded we had other great business opportunities and expanded the idea of an institutional broker to a business portal for both retail and professional investors, getting the Execution Broker seal on July 2016 and the Retail Broker seal in February 2017.

The digital bank's business plan is to continue the already consolidated legacy of Banco Modal in the market and all the structure and improvement during this 23 years in the market, but always with the desire to innovate and the vision of the future. Regarding innovation, we are committed to adhering to new technologies and to find ways to make the life of our customers easier, as well as to make the communication more fluid and dynamic. Accordingly, we created a totally interactive business portal ([www.modalmais.com.br](http://www.modalmais.com.br)) that enables the investors many investment possibilities, whether of modalmais products or of other managers; we developed a smartphone app, available for the Android and iOS platforms, called "banco digital modalmais", in order to cover our customers' need for access; we created our YouTube channel ([www.youtube.com/user/modalmais](http://www.youtube.com/user/modalmais)) to disseminate relevant content to our customers, as well as an Instagram profile (<https://www.instagram.com/modalmais/>) to encourage and bring closer the interaction of the brand with its followers.

During the development process, we concluded we had other great business opportunities and expanded the idea of an institutional broker to a business portal for both retail and professional investors, we gained the Execution Broker seal on July 2016 and the Retail Broker seal in February 2017.

We are fully operating and we keep on investing in specialized personnel, infrastructure and state of the art technology, in order to offer an increasingly complete service, with more investment options to our customers, such as the opening of the commodities table, the share lease table and new investment platforms.

Our total revenue with customers operations grew almost 200% when compared with the previous year. The volume of customers grew more than 295% in relation to 2017. A characteristic of 2016 and 2017, virtually the first year of operation of DTVM, was the strong investment (according to Notes 16 and 17) in order to prepare the structure to meet the growing demand of customers and the massive need for state of the art technologies and, therefore, to be able to provide a differentiated, fast and quality service. As consequence of this movement, we had a much higher feedback than we initially expected. Currently, these numbers keep on constantly growing, with current revenue around R\$ 65 million (2017 - R\$ 24 million).

Additionally, the digital bank modalmais had revenue with broker operations eleven times higher than the expected, volume of funding in fixed income twice higher and in the investment funds, own or of third-parties, 25 times than the expected. This makes us even more sure that we are in the right path for the consolidation of a sustainable and strategic business for the group as whole.

Modalmais ended 2018 with more than 347 thousand enabled customers (120 thousand active customers) within fixed and variable income (we project 600 thousand up to the end of 2019), more than R\$3 billion under the custody of Bovespa, more than R\$478 million raised in Treasury Direct, more than R\$ 692 million raised in fixed income, more than R\$ 198 million raised in funds and more than R\$ 4.6 billion in AuM.

### Retail investment channel - modalmais

In October 2015, it was officially launched the modalmais Home Broker. Two years later, the portal had already won the highlighted position in the Brazilian market of stock exchange, fixed income and Direct Treasury. The digital bank modalmais arose in the end of 2018 as a strategic action of Grupo Modal, this movement is one more evidence of the commitment of modalmais with innovation and technology in favor of the customers.

Our customers use modalmais to carry out its investments in the stock exchange (Bovespa and BM&F Segment), investment funds and fixed income (CDB, LCI, LCA, Treasury and Debentures with Incentive), with investments that amounts to more than R\$ 4.3 billion. The strong growth arises from an offer of fixed income products with very good profitability with no charge of custody fees or monthly rates, zero rate Direct Treasury, stock exchange brokerage at a fair price and costs of negotiation platforms with discounts.

In the Stock Exchange, modalmais is extremely competitive, with the best cost-benefit of the market. To invest in shares, options, FIIs and ETFs, custody fee is not charged, and the brokerage fee varies according to the chosen plan from R\$ 0 (zero) to R\$2.49 for carried order.

For future dollar and rate contracts, the brokerage varies according to the chosen plan, and it may vary from R\$ 0 (zero) to R\$ 0.16 for mini contract traded. And from R\$ 0 (zero) to R\$ 0.80 for full contract traded.

Besides the modalmais portal, the digital bank offers an Operations Table with personalized and qualified service for investments in the Bovespa and BM&F markets. The table counts with:

- Personalized and exclusive service;
- Wide range of investment products for all the profiles;
- Negotiation robot to automate your orders with accuracy;
- Long & short locked structured operations, etc.
- Experts dedicated to find the best investments opportunities for you and much more.

## Certifications for the variable income market

DTVM, within the Operational Qualification Program (PQO), was accredited the Execution Broker seal, which identifies the Full Participant in Business and the Negotiation Participant, which has the technologic and organization structure to provide business services for institutional investors in the BM&FBOVESPA business environments.

In the first quarter of 2017, Modal DTVM, within the Operational Qualification Program (PQO), was accredited the Retail Broker Seal, which certifies the quality of the services rendered to individuals and non-financial corporates.



## Governance

Modal is one of the country's largest managers of funds with R\$ 40,8 bi ( R\$ 19.5 bi on 12/31/2017) of AuM. It has a well divided basis with expertise in management and administration of differentiated assets.

The risk control procedures follow its commitment with the excellence in meeting its customers' expectations and are aligned with the market's best practices, beginning with the independence of the risk area, which reports directly to the Board. To ensure the maximum market and liquidity risk security, all the operations are monitored according to the limits determined by the Modal Risk Committee, in which the Group's CFO and CEO also participate. This procedure is also reinforced by regular internal audits. The security outline is complemented by the Compliance and Operating Risk, whose role is to ensure the compliance of all the practices with the regulatory standards and requirements of the Brazilian authorities and the alignment to the Basel Agreement, besides the adherence to the best corporate governance policies. With the structured procedures and strictness in applying its policies. Modal seeks to ensure total reliability to its customers.

The quality view of Modal spreads to all areas of the Group. Each year, new investments in technology and training programs pursue this goal.

## Acknowledgement

We thank the customers and partners for the support, respect and trust, and our collaborators for the determination and commitment to the values of Grupo Modal, which have been essential for the achievement of differentiated results.

Rio de Janeiro, March 29, 2019

Board of Directors



# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Balance sheets at December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

Assets	Notes	2018	2017	Liabilities and equity	Notes	2018	2017
<b>Current assets</b>		<b>301,848</b>	<b>188,420</b>	<b>Current liabilities</b>		<b>276,255</b>	<b>167,806</b>
Available funds	4	4,923	601	Marketable securities and derivative financial instruments		-	101
Cash		4,923	601	Derivative financial instruments		-	101
Short-term interbank investments	4	165,041	92,031	Other payables		276,255	167,705
Interbank investments		165,041	92,031	Taxes collected		13	19
Marketable securities and derivative financial instruments	5	12,920	12,107	Social and statutory		2,622	952
Own portfolio		1,083	873	Tax and social security contributions	12	6,128	2,481
Underlying guarantees provided		11,837	11,133	Negotiation and intermediation of securities	9	264,482	161,872
Derivative financial instruments		-	101	Sundry	13	3,010	2,381
Credit operations				<b>Long-term liabilities</b>		<b>220</b>	<b>-</b>
Private sector	7	2,032	1,712	Other payables		220	-
Other credits		114,595	81,927	Sundry	23	220	-
Negotiation and intermediation of securities	9	101,963	73,650				
Sundry	10	12,632	8,277				
Other assets	8	2,337	42				
Prepaid expenses		2,337	42				
<b>Long-term receivables</b>		<b>4,113</b>	<b>4,002</b>	<b>Equity</b>	14	<b>37,590</b>	<b>25,749</b>
Other credits		4,113	4,002	Capital		41,504	36,504
Sundry	10(a)	4,113	4,002	Accumulated losses		(3,914)	(10,755)
<b>Permanent assets</b>	11	<b>8,104</b>	<b>1,133</b>				
Property and equipment in use		2,034	580				
Intangible assets		6,070	553				
<b>Total assets</b>		<b>314,065</b>	<b>193,555</b>	<b>Total liabilities and equity</b>		<b>314,065</b>	<b>193,555</b>

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

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Statements of operations

All amounts in thousands of reais , except profit per lot of thousand quotas

(A free translation of the original in Portuguese)

	Notes	2nd six-month period 2018	Years ended December 31	
			2018	2017
<b>Revenues from financial intermediation</b>				
Credit operations - margin account	7	519	1,050	690
Result from transactions with marketable securities		11,773	17,176	5,093
<b>Gross profit from financial intermediation</b>		<b>12,292</b>	<b>18,226</b>	<b>5,783</b>
<b>Other operating income (expenses)</b>				
Service revenue	15	41,433	65,236	24,210
Personnel expenses	16	(9,663)	(16,348)	(6,826)
Other administrative expenses	17	(25,601)	(42,962)	(14,668)
Tax expenses	19	(3,467)	(5,433)	(1,971)
Other operating expenses	21	(2,208)	(3,969)	(1,185)
Other operating income		43	213	200
<b>Operating result</b>		<b>537</b>	<b>(3,263)</b>	<b>(240)</b>
<b>Result before taxation on and profit sharing</b>		<b>12,829</b>	<b>14,963</b>	<b>5,543</b>
<b>Income tax and social contribution</b>				
Provision for current income tax	18	(1,723)	(2,103)	(783)
Provision for current social contribution	18	(1,431)	(1,745)	(661)
Deferred tax assets	3(j)	(1,322)	(1,445)	(567)
		<b>(4,476)</b>	<b>(5,293)</b>	<b>(2,010)</b>
<b>Profit sharing</b>		<b>(2,615)</b>	<b>(2,829)</b>	<b>(952)</b>
<b>Profit for the six-month period/year</b>		<b>5,738</b>	<b>6,841</b>	<b>2,581</b>
<b>Net income per share - R\$ (group of 1,000 quotas)</b>		<b>138.21</b>	<b>164.33</b>	<b>70.70</b>

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

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Statements of changes in equity

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Share capital	Adjustment to market value of securities and derivatives	Accumulated losses	Total
<b>Year ended December 31, 2017</b>				
At January 1, 2017	29,504	(1)	(13,336)	16,167
Capital increase	7,000	-	-	7,000
Market value adjustments - marketable securities and derivatives	-	1	-	1
Profit for the year	-	-	2,581	2,581
<b>At December 31, 2017</b>	<b>36,504</b>	<b>-</b>	<b>(10,755)</b>	<b>25,749</b>
<b>Changes for the year ended December 31, 2017</b>	<b>7,000</b>	<b>1</b>	<b>2,581</b>	<b>9,582</b>
<b>Six-month period ended December 31, 2018</b>				
At July 1, 2018	41,504	-	(9,652)	31,852
Net profit for the six-month period	-	-	5,738	5,738
<b>At December 31, 2018</b>	<b>41,504</b>	<b>-</b>	<b>(3,914)</b>	<b>37,590</b>
<b>Changes in the 2nd six-month period of 2018</b>	<b>-</b>	<b>-</b>	<b>5,738</b>	<b>5,738</b>
<b>Year ended December 31, 2018</b>				
At January, 2018	36,504	-	(10,755)	25,749
Capital increase	5,000	-	-	5,000
Profit for the year	-	-	6,841	6,841
<b>At December 31, 2018</b>	<b>41,504</b>	<b>-</b>	<b>(3,914)</b>	<b>37,590</b>
<b>Changes for the year ended December 31, 2018</b>	<b>5,000</b>	<b>-</b>	<b>6,841</b>	<b>11,841</b>

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

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Statements of cash flows

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2nd six-month period of 2018	2018	Years ended December 31 2017 (reclassified)
<b>Operating activities</b>			
Profit / (loss) for the year / six-month period	5,738	6,841	2,581
<b>Adjustments to net profit (loss)</b>	4,726	5,705	2,079
Current income tax and social contribution	3,154	3,848	1,444
Deferred income tax and social contribution	1,322	1,445	567
Depreciation and amortization	250	412	68
<b>Changes in assets and liabilities - operating activities</b>	43,874	68,083	69,075
(Increase) / Decrease in credit operations	(262)	(320)	(732)
(Increase) / Decrease in other credits	(52,053)	(38,072)	(22,231)
(Increase) / Decrease in other assets	(938)	(2,295)	117
Increase / (decrease) in other obligations	97,127	108,769	91,921
<b>Cash from operating activities</b>	54,338	80,630	73,735
<b>Investing activities</b>			
(Increase) in securities available for sale	682	(914)	(5,026)
(Acquisition)/disposal of property and equipment in use	(580)	(1,806)	(527)
(Acquisition)/disposal of deferred/intangible assets	(3,449)	(5,578)	(553)
<b>Net cash used in investing activities</b>	(3,347)	(8,298)	(6,106)
<b>Financing activities</b>			
Capital contribution	-	5,000	7,000
<b>Net cash provided by financing activities</b>	-	5,000	7,000
<b>Increase in cash and cash equivalents</b>	50,991	77,332	74,629
Cash and cash equivalents at the beginning of the year and six-month period (Note 4) (i)	118,973	92,632	18,003
Cash and cash equivalents at the end of the year and six-month period	169,964	169,964	92,632
<b>Increase in cash and cash equivalents</b>	50,991	77,332	74,629

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

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Notes to the financial statements At December 31, 2018

All amounts in thousands of reais

(A free translation of the original in Portuguese)

### 1. Operations

The objective of Modal Distribuidora de Títulos e Valores Mobiliários Ltda. (“Modal DTVM” or “DTVM”), former Safdié Distribuidora de Títulos e Valores Mobiliários Ltda, is to purchase and sell marketable securities, for its own or for third-parties, to institute, to organize and to manage investment funds and clubs and to exercise other activities expressly authorized by Brazilian Central Bank (BACEN) and/or by Brazilian Securities Commission (“Comissão de Valores Mobiliários – CVM”), among others.

The headquarter of Modal DTVM, as from the 2nd six-month period of 2015, is at Praia de Botafogo, 501 Torre Pão de Açúcar (6º andar) – Botafogo – Rio de Janeiro RJ.

The control exchange of Safdié DTVM was approved by BACEN on July 3, 2015, becoming a wholly-owned subsidiary of Banco Modal S.A. (Controller). The new name is Modal Distribuidora de Títulos e Valores Mobiliários S.A. (“Modal DTVM”) and it represents an important distribution and cross-selling channel for the products and services offered by the controller and by Novus Capital Gestora de Recursos Ltda. (“Associate”), besides new products of other banks (funds, CDB, LCI, LCA, etc.), duly approved in the due diligence internal process, through its performance with the institutional customers and through its investment portal “Modal Mais” (modalmais.com.br).

### 2. Presentation and elaboration of the financial statements

#### 2.1. Preparation basis

These financial statements were elaborated in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by BACEN, associated to the other standards issued by BACEN.

In preparing the financial statements, estimates and assumptions were utilized to determine the amounts of certain assets, liabilities, income and expenses, in accordance with accounting practices effective in Brazil. These estimates and assumptions were considered in the measurement of the provisions for loss with credit operations and other credits, provision for contingencies, when applicable, deferred taxes, in the determination of the market value of financial instruments and in the selection of the useful life of certain assets. The actual results may differ from the estimates and assumptions adopted.

The financial statements of Modal DTVM were concluded and approved by management on March 29, 2019.

#### 2.2. Amendments to the Brazilian accounting practices

As part of the process of convergence with international accounting standards, the Brazilian Accounting Pronouncements Committee (CPC) issued certain standards and interpretations, which will be applicable to financial institutions only after approval by BACEN. The pronouncements, which have already been approved by BACEN, are the following:

- Res. No. 3,566/08 - impairment of assets (CPC 01 - R1)
- Res. No. 3,604/08 - statement of Cash Flows (CPC 03 - R2)
- Res. No. 4,636/18 - disclosures on related parties (CPC 05 - R1)
- Res. No. 3,823/09 - provisions, contingent assets and liabilities - (CPC 25)
- Res. No. 3,973/11 - events after reporting period - (CPC 24)
- Res. No. 3,989/11 - share-based payment (CPC 10 - R1)
- Res. No. 4,007/11 - accounting policies, changes in accounting estimates and correction of errors (CPC 23)
- Res. No. 4,144/12 - conceptual structure for preparation and disclosure of financial statements (Basic conceptual pronouncement R1), except for the matters that do not conflict with BACEN provisions
- Res. No. 4,424/15 - accounting record and evidence of benefits to employees (CPC 33 (R1))
- Res. No. 4,524/16 - effects of the changes in the foreign exchange rates and translation of financial statements (CPC 02 (R2))
- Res. No. 4,534/16 - intangible assets (CPC 4 (R1))

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

## Notes to the financial statements

At December 31, 2018

All amounts in thousands of reais

(A free translation of the original in Portuguese)

- Res. No. 4-535/16 - property, plant and equipment (CPC 27).

At present, it is not practicable to predict when BACEN will approve the other CPC accounting standards or whether their application will be retrospective or effective only for future periods for the preparation of financial statements.

### 3. Significant accounting practices

The significant accounting practices adopted to account the operations and to elaborate the financial statements are as follows:

#### a) Determination of result

Revenue and income are accounted for on an accrual basis.

#### b) Functional and presentation currency

The financial statements are being presented in thousands of reais, functional and presentation currency of Modal DTVM.

#### c) Cash and cash equivalents

These are presented by cash in local currency, short-term interbank investments, with maturity lower than 90 days. They are used by Modal DTVM for the management of the short-term commitments, according to provisions of BACEN Resolution No. 3,604/08 and they represent immaterial risk of change in fair value.

#### d) Marketable securities and derivative financial instruments

Marketable securities are classified under the terms of BACEN Circular 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.
- (ii) 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 equity account; such securities are mostly used in the management of the Bank's cash. Gains and losses on securities available for sale, when realized, are recognized in the statement of income, with corresponding entries in specific equity accounts.
- (iii) Securities held to maturity - securities acquired with the intention to hold them up to maturity, which are evaluated by their intrinsic rate, with a corresponding entry to the statement of income and evaluated regarding the eventual evidence of permanent loss that, if verified, is recorded in the year it occurred.

The marketable securities classified as "trading securities" are being presented as current assets, regardless the maturity, as provided by Circular letter No. 3,068/01.

In the years ended December 31, 2018 and 2017, the securities were not reclassified between the categories.

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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### e) Derivative financial instruments

Transactions with derivative financial instruments are recorded as follows

- (i) Options - the nominal values of share options and financial assets and commodities, granted and exercisable, are recorded in the memorandum accounts. The premium amounts received and/or paid on contracting the operations are recorded in equity, adjusted to their quoted market prices, until the options are exercised (if applicable), at which point they are written off as a decrease or increase in the cost of the asset or right. Otherwise they are recorded as an income or expense item, if the option is not exercised.
- (ii) Futures market - contracts for transactions involving financial assets and commodities in the futures market are recorded in the memorandum accounts. The adjustments of these agreements are determined daily by type and respective maturity and recognized monthly in the Statement of Income.
- (iii) Swaps - swap contracts are recorded in the memorandum accounts at nominal amounts. The differences payable or receivable are recorded in the Balance Sheet accounts with a corresponding entry to the Statement of Income, and adjusted monthly to their market value.
- (iv) Forward transactions - contracts for forward transactions involving financial assets and commodities are recorded in the memorandum accounts. The adjustments relating to these contracts are calculated daily and recognized in the Statement of Income, with a corresponding entry to Balance Sheet accounts and adjusted monthly to its market value.

Derivative financial instruments are valued at market value and the appreciation and/or devaluation in the value, in accordance with the respective classifications, is recorded in accordance with Circular Letter 3,082/02 as follows:

- (a) Not to be used as a hedge - recorded in the Statement of Income.
- (b) Market risk hedge – the financial assets and liabilities object of hedge, including the assets classified as available for sale and their tax effects, and the respective derivative financial instruments related are accounted for at market value, with the corresponding gains and losses recognized in the Statement of Income for the period; and
- (c) Cash flow hedge - the financial assets and liabilities object of hedge and the respective derivative financial instruments related are accounted for by market value, with the corresponding gains and losses, less the tax effects, recognized in equity account under “Equity Adjustment”. The ineffective portion of hedge is recognized directly in the statement of operations for the period.
- (d) The derivative financial instruments that arose from customers’ requirement or on its own, characterized as hedge but that do not meet the criteria of accounting hedge established by the BACEN’s standards, mainly derivatives used to manage the risk global exposure, are accounted for by the market value, with the gains and losses recognized directly in the statement of operations for the period.

The derivative financial instruments used to protect risk exposures, through the modification of certain characteristics of hedge financial assets and liabilities, which are highly effective and meet all the other assignment requirements and documentation dealt by BACEN’s Circular Letter No. 3,082/02, are classified as accounting hedge according to their nature.

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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### g) Negotiation and intermediation of securities

These are represented by securities pending settlement within the regulatory deadlines, related to operations of purchase and sale of securities and financial assets agreements carried out in B3 S.A. - Bolsa, Brasil, Balcão, for its own or on behalf of third-parties.

### h) Credit operations - margin account and allowance for loan losses

Fixed operations determined on a pro-rata day basis up to the financial statements date. The determination of the allowance for loan losses is based on the effective accounting standards (Resolution No. 2,682/99) and considers the real guarantees obtained, observing the minimum limit of 140% (one hundred and forty percent) in group of shares that comprise the Bovespa index.

### i) Permanent assets

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.

Intangible assets - comprise mainly licenses for the use and the development of software applications and business platforms. They are amortized on the straight-line method and consider an estimated useful life taking into account the future economic benefits that will be generated.

### j) Income tax and social contribution

The provision for income tax is established at a rate of 15% of annual taxable income plus, if applicable, an additional rate of 10% on taxable income in excess of R\$ 240. The provision for social contributions is calculated at the rate of 15% on income before tax, adjusted in accordance with current legislation.

Calculated at the rates below, they consider the respective calculation basis, and the legislation in force.

Description	%
Income tax	15%
Additional Income tax	10%
Social contribution (1)	15% - 20%

(1) The Law No. 13,169, of 10/6/2015, temporarily increased the Social Contribution rate applicable to financial institutions and related, from 15% to 20% in the period between 9/1/2015 and 12/31/2018. As from 1/1/2019, the rate is back to 15%. As a result of the temporary increase of the social contribution rate, the current taxes were calculated at the 15% rates up to 8/31/2015 and 20% as from September 2015 up to the closing at December 31, 2018.

Deferred credits and taxes arising from the valuation of securities and derivative financial instruments at market values and from the temporary differences arising from the evaluation at market value of the marketable securities, as well as income tax and social contribution losses and other temporary additions/exclusions, were calculated and recorded in accordance with the standards established by BACEN Circular 3,171/02 and related standards, taking into consideration the income tax and social contribution rates in effect and the estimates of realization relating to the operations which generated them and recognized just when all the requirements to its constitution, established by CMN Resolution No. 3,059/02 and later amendments, are met.

The tax credits arising from tax losses and negative basis were accounted for (Resolution 3,059/02 and amendments), based on technical study prepared and approved by the management of Modal DTVM,



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the expectation of realization of these tax credits considered the results projected for the next years, using market assumptions, installed capacity, diversification of the offered products, administration of the structured funds and the historical and projected growth of the customers portfolio and volume of operations.

### k) Contingent assets and liabilities and legal obligations

The recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are carried out based on the criteria defined in the BACEN Resolution No. 3,823, of December 16, 2009, which approved the CPC Technical Pronouncement 25, applicable as from 2010, as follows:

- **Contingent assets:** these are not recognized in the financial statements, except when there are evidences that offer guarantees of their realization, with no appeals. There are no contingent assets for the year ended December 31, 2018.
- **Contingent liabilities:** these are recognized in the financial statements when, based on the opinion of the legal advisors and of management, the loss of a lawsuit or administrative proceeding is evaluated as probable and whenever the amounts involved can be measured with sufficient reliability. The contingent liabilities classified as possible losses by legal advisors are not recorded and are disclosed in the notes to the financial statements and those classified as remote are neither recognized nor disclosed;
- **Legal obligations:** derive from lawsuits or administrative proceedings contesting the legality and constitutionality of some obligations and contributions. These amounts are fully recognized in the financial statements and updated according to the effective law. There are no administrative or legal demands for the year ended December 31, 2018

### l) Other current and long-term assets and liabilities

These are stated at realization and/or chargeability value, including the earnings and charges incurred up to the balance date, calculated on a 'pro rata' day basis and, when applicable, the effect of the adjustments to reduce the cost of the assets at their market or realization value. The realizable and payable balances within 12 months are classified in current assets and liabilities, respectively.

### m) Variable remuneration program – *Phantom Stock Option*

The Program is of the "Phantom Stock Option" type, through which the beneficiary does not become a partner of any entity of Grupo Modal, it just acquires the right to receive the amount corresponding to the valuation of the shares of Grupo Modal, in the period of time between the grant and its maturity, in the proportion of its interest in the program, with no issue of new shares and any acquisition cost for the beneficiary.

In order to constitute the provision for the period between the grant and the exercise, the Equity is projected until the maturity of the option, with the adjustments provided in the granting, and it is compared to the basis equity of the program and the result is brought to present value at the DI rate, disclosed in anticipation by B3 and it is used the percentage granted to the participants on the amount. The provisions is constituted against the result as Other operating expenses.

### n) Provision of the advantage program "Mais Milhas"

The program "Mais Milhas" is a loyalty program offered to the investors, which allows the accumulation of points from investment in post-fixed and fixed Bank Certificate of Deposits (CDB) of Banco Modal S.A. And "Monthly Gain". The accumulated points may be used, upon redemption request, for discounts and/or benefits in the acquisition of products and services offered by the partners. The provisions is constituted, as from the adhesion of the customer to the program, in the statement of operations under "Other administrative expenses".

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### 4. Cash and cash equivalents

	<u>2018</u>	<u>2017</u>
Available funds	4,923	601
Short-term interbank investments	<u>165,041</u>	<u>92,031</u>
Interbank investments (i)	165,041	92,031
<b>Total</b>	<u><b>169,964</b></u>	<u><b>92,632</b></u>
Short term	169,964	92,632

#### (a) Increase in cash and cash equivalents

	<u>At December 31, 2018</u>		
	<u>Originally presented</u>	<u>Reclassification</u>	<u>Adjusted</u>
Cash and cash equivalent	93,505	(873)	92,632
Marketable securities - free	-	873	-
<b>Statement of cash flows</b>	<u>Originally presented</u>	<u>Reclassification</u>	<u>Adjusted</u>
Net cash provided by (used in) investing activities	(5,233)	873	(6,106)
Cash and cash equivalents at the end of the year and six-month period	93,505	(873)	92,632

- (i) The interbank investments in the amount of R\$ 165,041 (2017 - R\$ 92,031) are due to January 2, 2019 and are carried out with the controller Banco Modal S.A. (Note 23).

### 5. Marketable securities and derivative financial instruments

#### (a) Marketable securities

	<u>Maturity range</u>	<u>Amortized cost</u>	<u>Market adjustment</u>	<u>2018 Carrying amount</u>	<u>2017 Carrying amount</u>
<b>Securities</b>					
<b>Trading securities</b>					
<b>Own portfolio</b>					
Bank Certificate of Deposits (CDB)	Up to December 2023	60	-	60	-
Bill of exchange	Up to May 2020	5	-	5	-
<b>Total securities for trade</b>		<u>65</u>	<u>-</u>	<u>65</u>	<u>-</u>
<b>Available-for-sale securities</b>					
<b>Own portfolio</b>					
Financial Treasury Bills (LFT)	Up to September 2022	1,018	-	1,018	873
<b>Total securities available-for-sale</b>		<u>1,018</u>	<u>-</u>	<u>1,018</u>	<u>873</u>
<b>Total own portfolio</b>		<u>1,083</u>	<u>-</u>	<u>1,083</u>	<u>873</u>
<b>Trading securities</b>					
<b>Subject to providing guarantees – BM&amp;F</b>					
Quotas of investment funds	No maturity	11,837	-	11,837	11,133

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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Securities	Maturity range	2018		2017	
		Amortized cost	Market adjustment	Carrying amount	Carrying amount
<b>Total securities for trade</b>		<b>11,837</b>	-	<b>11,837</b>	<b>11,133</b>
<b>Total Subject to providing guarantees – BM&amp;F</b>		<b>11,837</b>	-	<b>11,837</b>	<b>11,133</b>
<b>Total general</b>		<b>12,920</b>	-	<b>12,920</b>	<b>12,006</b>

### (b) Derivatives

		2017		
		Updated cost	Market value	Unrealized result
<b>Asset position</b>				
Future purchase receivable	(i)	50	50	-
Future sale receivable	(i)	51	51	-
<b>Total</b>		<b>101</b>	<b>101</b>	-
		Current	101	
<b>Liability position</b>				
Future purchase payable	(i)	51	51	-
Future sale payable	(i)	50	50	-
<b>Total</b>		<b>101</b>	<b>101</b>	-
		Current	101	

- (i) These future operations are held in custody in B3, are indexed based on the price index and their maturity is within 30 days.

On December 31, 2018, there were no operations with derivative financial instruments in the DTVM portfolio, neither directional nor intermediation.

The market value of the marketable securities is calculated based on the price of the assets disclosed by external resources, such as B3 - Brasil, Bolsa, Balcão and ANBIMA.

On December 31, 2018 and 2017, the customers position under custody of Modal DTVM, as well as the amounts of margin deposits and guarantees under the responsibility of DTVM, own and of third-parties, were as follows:

Third-parties' portfolio	2018	2017
Operations with shares	2,965,964	1,814,993
Direct treasury	477,723	191,837
Bank Deposits Certificates	353,214	109,385
Quota of investment funds	210,344	73,325
Housing Credit Bills	139,520	41,348
Agro Credit Bills	62,141	17,525
Bill of exchange	56,937	-
Structured Operations Certificate	18,256	-
Financial Treasury Bills	16,458	-
Debentures	13,722	-

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<b>Third-parties' portfolio</b>	<b>2018</b>	<b>2017</b>
Financial bills	8,050	-
National treasury note	4,266	-
Agribusiness receivables certificates	4,224	-
Real Estate Receivables Certificates	2,781	-
Promissory Note	806	-
<b>Total</b>	<b>4,334,406</b>	<b>2,248,413</b>

The controller of Modal DTVM (Banco Modal S.A.) is clearing member and responsible, before the Stock Exchange, for the settlement of DTVM's operations.

In the course of its activities, DTVM needs to deposit guarantee margin in B3. On December 31, 2018, the amount deposited by the controller to supply this need, was of R\$ 11,825 (2017 - R\$ 11.118).

### 6. Risks management

In compliance with the CMN Resolution No. 4,557/17, structures for management of the market, operating and credit risks were implemented. All these structures were duly approved by the executive board.

- (i) Market risk management: related to the fluctuation of prices and rates, i.e., to the variations of interest rates markets within the country, which reflect in the price of the assets and liabilities traded in the markets.
- (ii) Operating risk management: specific structure for the risks management in the operating activities.
- (iii) Credit risk management: structure responsible for monitoring the possibility to occur losses to Modal DTVM, whether they are associated or not to the compliance, by the financial operation counterparty, with its obligations in the agreed upon terms.
- (iv) Liquidity risk management: related to the mismatching of financial flows of assets and liabilities, reflected in the Modal DTVM's financial capacity to obtain funds to pay its obligations;
- (v) Financial instruments: Modal DTVM maintains operating and financing policies and strategies aiming liquidity, security and profitability of its assets. This way, it has procedures to control and monitor the transactions and balances of its financial instruments, in order to monitor the risks and the effective rates in relation to those practiced in the market.

On December 31, 2018, the Management considered as acceptable the exposure to the risks of Modal DTVM, once all the cash is invested in high liquidity operations, in general public bonds or committed operations with the controller.

### 7. Credit operations - private sector

These operations correspond to margin account operations carried out as financing for the acquisition of shares, in the amount of R\$ 2,032 (2017 - R\$ 1,712), giving rise to a result of R\$ 1,050 (2017 - R\$ 690). The operations' guarantees are financial assets under the custody of Modal DTVM, with market values higher than at least 140% of the granted credit, in shares group provided by the rules of B3 - Brasil, Bolsa, Balcão.

### 8. Other assets

In December 2018, R\$ 2,337 (2017 - R\$ 42) refer substantially to the prepaid expenses on the acquisition of temporary license for the use of system and marketing and publicity services, which will be amortized during the effectiveness term of the service, according to agreement signed by the parties.

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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### 9. Negotiation and intermediation of securities

On December 31, 2018, the assets and liabilities balances refer to transactions carried out on behalf of customers in the stock, commodities and futures exchange, whose financial settlement will occur in an operating cycle of D+1 or D+3. These are as follows:

	2018		2017	
	Asset position	Liability position	Asset position	Liability position
Amounts to settle - Customer	51,222	50,740	32,016	41,634
Amounts to settle - Stock Exchange	50,741	50,914	41,634	31,922
Customer deposit (i)	-	162,828	-	88,316
<b>Total</b>	<b>101,963</b>	<b>264,482</b>	<b>73,650</b>	<b>161,872</b>

(i) The amount of R\$ 162,482 (2017 - R\$ 88,316) refers to the investors' funds available for future trade. The funds are invested until these investors order the negotiations or they are used as coverage of margin calls (Note 4).

### 10. Other credits - sundry

		2018	2017
Tax credits (a)		6,690	8,135
Administration fee (Note 15)(Note 24)		4,215	3,189
Taxes and contributions to offset (b)		2,813	744
Trade receivable - Commission for recommendation of customers (c)		1,556	-
Trade receivables - Customers (d)		993	-
Amounts receivable from related party (Note 23)		226	118
Debtors by guarantee deposits (e)		37	12
Advances and prepayment of salaries		-	55
Others		215	26
<b>Total general</b>		<b>16,745</b>	<b>12,279</b>
Short term		12,632	8,277
Long term		4,113	4,002

(a) Tax credits by realization year and estimate of realization and their present value are as follows:

Tax realization year	Temporary differences	Tax Loss/ Negative basis (ii)	Total General
2019	129	2,448	2,577
2020	-	4,016	4,016
2021	-	97	97
<b>Total general</b>	<b>129</b>	<b>6,561</b>	<b>6,690</b>
<b>Present value (i)</b>	<b>122</b>	<b>5,867</b>	<b>5,989</b>
<b>Year ended 12/31/2017</b>			
Carrying amount	-	8,135	8,135
Present value	-	7,148	7,148

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- (i) For the calculation of present value the DI x Fixed rate disclosed by B3 S.A. - Brasil, Bolsa, Balcão.
- (ii) During the year ended December 31, 2018, the amount of R\$ 1,574, of the Tax Credits inventory arising from Tax Losses and Negative Basis, was realized (Note 18).
- (b) This refers to income tax and social contribution that were paid on estimates and will be offset, according to effective legislation.
- (c) The amount refers to the partnership entered into by Modal DTVM and a company specialized in courses and training arising from the recommendation of broker's customers for the acquisition of courses.
- (d) These refer to receivables from trading platform and taxes paid in December and reimbursed by the customers in January 2019.
- (e) The item "Debtors for guarantee deposits" refers to judicial deposit for appeal against decision of social security payment, according to Note 19.

### 11. Permanent assets

The balances and changes occurred in Property and Equipment and Intangible Assets are as follows:

<b>Property and equipment</b>	<b>12/31/2017</b>	<b>Acquisitions</b>	<b>Depreciation</b>	<b>12/31/2018</b>
Furniture and equipment in use	32	-	(3)	29
Systems and data processing	546	1,791	(350)	1,987
Property and equipment in course	2	16		18
<b>Total</b>	<b>580</b>	<b>1,807</b>	<b>(353)</b>	<b>2,034</b>

<b>Intangible assets</b>	<b>12/31/2017</b>	<b>Acquisitions</b>	<b>Depreciation</b>	<b>12/31/2018</b>
Software	83	266	(59)	290
Prepaid intangible assets (i)	470	5,310		5,780
<b>Total</b>	<b>553</b>	<b>5,576</b>	<b>(59)</b>	<b>6,070</b>

- (i) This refers to a new project that is in development stage and its amortization will occur according to business plan prepared by management.

### 12. Tax and social security obligations

	<b>2018</b>	<b>2017</b>
Taxes and contributions on income	3,849	1,444
Taxes and contributions on salaries	769	374
Tax on income	685	439
Taxes and contributions on third-parties services	179	65
Other tax obligations (a)	646	159
<b>Total</b>	<b>6,128</b>	<b>2,481</b>

- (a) This substantially refers to COFINS and Service Tax payable of DTVM and income tax of the managed Funds and on their behalf.

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### 13. Other liabilities - sundry

		<b>2018</b>	<b>2017</b>
Personnel expenses		1,436	573
Amounts payable to related party	(i)	992	1,655
Provision for miles program	(ii)	78	104
Provision for administrative expenses		43	37
Phanton stock option program	(iv)	220	-
Other obligations	(iii)	461	12
	<b>Total</b>	<b>3,230</b>	<b>2,381</b>
	Short term	<b>3,010</b>	<b>2,381</b>
	Long term	<b>220</b>	-

- (i) This refers to payables to the controller due to cost apportionment agreement of the structure shared by the group (Note 23(i)), whose settlement often occurs in six-month periods. During the year, the amount of R\$ 6,359 (2017 - R\$ 3,707) was settled.
- (ii) This refers to the “Mais milhas” Program, whose objective is to grant points to the customer that invests in fixed and post-fixed Bank Certificate of Deposits (CDB) and “Ganho Mensal” intermediated by Modal through its home broker. On December 31, 2018, the program account with more than 1,000 customers, amounting 1,560,700 points to be redeemed.
- (iii) The amount in this item refers mainly to fixed income operation on their behalf, which were settled in January 2019.
- (iv) This refers to the variable compensation program in the Phantom Stock Option modality, as detailed in Notes 3(k) and 23(ii).

### 14. Equity

#### Share capital

On June 26, 2017, 7,000,000 (seven million) quotas with par value of R\$ 1.00 were issued, increasing its capital from 29,503,500 to 36,503,500 quotas subscribed and paid up according to quotaholders’ meeting and homologated by BACEN on July 5, 2017.

A new issuance of 5,000,000 (five million) quotas occurred on April 30, 2018 with par value of R\$ 1.00, increasing the capital to R\$ 41,504 of subscribed and paid up quotas. This was homologated by Bacen on May 17, 2018.

On December 31, 2018, the share capital is represented by 41,504,000 quotas (2017 - 36,503,500 quotas) with par value of R\$ 1.00, subscribed and paid up, in the amount of R\$ 41,504 (2017 - R\$ 36,504).

#### Profit sharing

The result calculated at the end of each year should be for whatever the quotaholders determine. The profit sharing, if it happens, will be to the quotaholders in the proportion of their interest in the share capital, unless contrary decision is unanimously made by the quotaholders.

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### 15. Service revenue

	<b>2nd six-month period of 2018</b>	<b>2018</b>	<b>2017</b>
Brokerage	24,937	40,805	13,874
Funds administration fee	6,619	9,144	5,297
Platform use	3,633	6,007	2,683
Brokerage plans	3,378	5,607	1,901
Commission for customers recommendation <b>(iii)</b>	1,556	1,556	-
Fund distribution/Commission of intermediation of BTC	644	1,071	370
Other revenues from provision of service <b>(ii)</b>	666	1,046	85
	<b>41,433</b>	<b>65,236</b>	<b>24,210</b>

- (i) This refers to administration fee received by Modal DTVM, regarding the gross structured funds of big institutional customers, managed by external managers or by managers of Grupo Modal.
- (ii) This amount refers substantially to the fees received for the distribution of commission from structured operations carried out during the second six-month period of 2018.
- (iii) The amount refers to the partnership entered into by Modal DTVM and a company specialized in courses and training (Note 10(c)), arising from the recommendation of broker's customers for the acquisition of courses.

### 16. Personnel expenses

	<b>2nd six-month period of 2018</b>	<b>2018</b>	<b>2017</b>
Salaries	6,283	10,433	4,510
Benefits	1,768	3,066	1,106
Social charges	1,546	2,670	1,201
Training	66	179	9
<b>Total</b>	<b>9,663</b>	<b>16,348</b>	<b>6,826</b>

### 17. Other administrative expenses

	<b>2nd six-month period of 2018</b>	<b>2018</b>	<b>2017</b>
Data processing	13,776	23,647	3,711
Publicity and public relations	4,754	7,499	2,539
Financial system services	3,459	5,220	1,837
Rental and condominium fees	1,035	1,909	1,206
Communication	885	1,373	385
Specialized technical services <b>(i)</b>	520	1,034	1,902
Third-parties services	481	936	2,208
Depreciation and amortization	250	412	68
Other expenses	441	932	812
<b>Total</b>	<b>25,601</b>	<b>42,962</b>	<b>14,668</b>

The specialized technical services refer, substantially, to expenses with financial consulting services and services of intermediation of marketable securities, quotas of investments funds and derivatives.



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### 18. Income tax and social contribution

	Income tax		Social contribution	
	2018	2017	2018	2017
<b>Result before taxation and statutory profit sharing</b>	<b>14,963</b>	<b>5,543</b>	<b>14,963</b>	<b>5,543</b>
Profit sharing	(2,829)	(952)	(2,829)	(952)
Other operating provisions	336	-	336	-
Other permanent additions (exclusions)	(16)	131	(4)	132
<b>Calculation basis before the income tax and social contribution losses (30%)</b>	<b>12,454</b>	<b>4,722</b>	<b>12,466</b>	<b>4,723</b>
(-) Offset of income tax and social contribution losses	(3,736)	(1,417)	(3,740)	(1,417)
<b>Adjusted calculation basis</b>	<b>8,718</b>	<b>3,305</b>	<b>8,726</b>	<b>3,306</b>
Nominal rates (15% + additional 10%)	25%	25%	15%	15%
Additional Social Contribution- 5%				
(i)	-	-	5%	5%
<b>Income tax and social contribution</b>	<b>2,103</b>	<b>802</b>	<b>1,745</b>	<b>661</b>
Tax incentive	-	(19)	-	-
<b>Net income tax and social contribution</b>	<b>2,103</b>	<b>783</b>	<b>1,745</b>	<b>661</b>
<b>Provision (reversal) of tax credits on tax losses, negative basis and other temporary differences (Note 10 (b))</b>	<b>(853)</b>	<b>(354)</b>	<b>(592)</b>	<b>(213)</b>

(i) As described in Note 3(h), the Social Contribution was increased from 15% to 20% up to the end of the year ended December 31, 2018. Thus, the social contribution tax credit, shown in Note 10(a), considered the rates that become effective on January 1, 2019, taking into account that the realization will occur in future periods.

### 19. Tax expenses

	2018	2017
COFINS (Social Security Financing Contribution)	3,347	1,207
Service tax	1,506	563
PIS (Social integration Program)	564	201
Other taxes	16	-
<b>Total</b>	<b>5,433</b>	<b>1,971</b>

### 20. Contingencies

Contingent liabilities arising from litigations or notifications of the supervising entities are assessed by management with the support of the legal advisors of Modal DTVM, considering the concepts defined in CMN Resolution 3.823/09, and are recognized in the financial statements if the lawsuit or administrative proceeding are classified as probable losses generating a probable outflow of resources for the settlement of the obligations and if the amounts involved are measurable with sufficient accuracy.

For the lawsuits 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.

On June 30, 2016, there was a labor lawsuit with judicial agreement homologated in court and already settled between the parties. Given the contradiction in the verdict, which homologated the moral damages (indemnity installment) and determined the payment of social security quota, which is not applied according to existent jurisprudence, we filed a motion for clarification. The legal advisors of DTVM understand as probable the risk of dismissal of the appeal filed in order to oppose the payment of social security as described above, even if there is a trend in the jurisprudence of the High Court of Labor in

# Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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favor of the exemption of payment when it is for moral damages. With any final outcome, the amount will be reimbursed by the seller of Safdié DTVM (previous name), according to provisions of the agreement of purchase and sale of quotas on August 15, 2014, reason why no provision was constituted for the mentioned lawsuit.

During the second six-month period, two Labor Complaints were filed. In one of them, an agreement was signed, and the other was evaluated with chances of possible loss for the payment of overtime hours, but with no provision due to the initial stage of the suit and to the fact that this complaint will depend on the production of evidences.

### 21. Other operating expenses

In the year ended December 31, 2018, “Other operating expenses” was substantially represented as follows: (i) appropriation of expense related to amortization of the pre-operating expenditures for development of the modalmais platform (*homebroker*), as provided by the business plan, in the total amount of R\$ 782 (2017 – R\$782); (ii) construction and improvements in the facilities that, due to cost apportionment contract, will be transferred by the controller to DTVM, in accordance with established criteria, in the amount of R\$ 415; (iii) Share option program (*phantom stock option program*) – Note 23(ii) in the amount of R\$ 220; (iv) operating losses substantially arising from errors in the execution of orders due to downtime or to operating errors, which amounted to R\$2,552 (2017 – R\$37). The growth in this expense is due to the strong increase presented in the traded volume. In 2018, we operated a volume of R\$ 45.5 bi (2017 - R\$ 17.5 bi), a 160% growth, besides the growth of almost 200% in the income from brokerage at the same period.

### 22. Operating limits

Financial institutions have to maintain a minimum shareholder equity equivalent to 8.625% (2017 - 9.25%) of their consolidated assets, weighted by risk factor, increased by the percentage of their credit risk, their exposure to gold and to assets and liabilities linked to variations in foreign exchange and on interest rate variations, in accordance with the rules and instructions of the BACEN.

In 2013, CMN Resolutions 4,192, 4,193 and 4,278 were published, which provide details about the calculation criteria for the Minimum Requirements for Reference Equity, of Level I, and of Principal Capital, and established the Principal Additional Capital, respectively.

On December 31, 2018 and 2017, the Modal conglomerate, of which Modal DTVM is a part, was framed within this operating limit, as follows:

	<u>2018</u>	<u>2017</u>
Principal capital	212,884	293,564
Complementary capital	-	-
<b>Level I (Capital + Complementary capital)</b>	<b>212,884</b>	<b>293,564</b>
Level II	-	-
<b>Reference Equity (Level I + Level II)</b>	<b>212,884</b>	<b>293,564</b>
Credit Risk Weighted Assets (RWACPAD) <b>(a)</b>	1,257,870	1,346,456
Market Risk Weighted Assets (RWAMPAD) <b>(b)</b>	321,607	707,914
Operational Risk Weighted Assets (RWAOPAD) (RWAOPAD) <b>(c)</b>	<u>307,655</u>	<u>246,657</u>
<b>RWA (a) + (b) + (c)</b>	<u>1,887,132</u>	<u>2,301,027</u>
Minimum Required Reference Equity	<u>162,765</u>	<u>212,845</u>
Excess in relation to the Minimum Required Reference Equity	<u>50,119</u>	<u>80,719</u>
<b>Index (%)</b>	<b>11%</b>	<b>13%</b>
Amount of reference equity calculated for covering the interest rate risk of operations not classified in the trading portfolio (RBAN).	<u>1,267</u>	<u>1,772</u>

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### 23. Related parties

#### (i) Operations with the controllers

Modal DTVM operated with the controller through interbank deposits, in the amount of R\$ 165,041 (2017 - R\$ 92,031), giving rise to a result of R\$ 9,391 (2017 - R\$ 3,630).

Modal DTVM signed a cost apportionment agreement of the structure shared by the group (Note 23(i)), whose settlement often occurs in six-month periods. On December 31, 2018, the net payable was R\$ 767 (2017 - R\$ 1,537) (Note 10 and 13). The total paid during the year amounted to R\$ 6,359 (2017 - R\$ 3,707).

On December 31, 2018, the controllers is the counterparty of R\$ 4,914 (2017 - R\$ 591) in available funds.

#### (ii) Key management remuneration

Total key management remuneration for the year ended December 31, 2018 was R\$ 910 (2017 - R\$ 140) of fixed remuneration, classified as short-term benefit.

Modal DTVM does not grant post-employment benefits, benefits of employment contract termination, other long-term benefits nor remuneration based on shares to management and board of directors.

#### Variable remuneration program – *Phantom Stock Option*

Modal DTVM, as from 2017, instituted a Share Option Program of the controller Banco Modal and other companies of the Prudential Consolidated, in order to (i) encourage more integration of those associated to Grupo Modal; (ii) generate long term benefits to the associated; (iii) hold those associated who are considered strategic to the institution; and (iv) allow more upside in the case of equity valuation of the shares of Grupo Modal (“2017 Options Program”).

The 2017 and 2018 Option Programs are of the “Phantom Stock Option” type, through which the beneficiary does not become a partner of any entity of Grupo Modal, it just acquires the right to receive the amount corresponding to the valuation of the shares of Grupo Modal, in the period of time between the grant and its maturity, in the proportion of its interest in the program, with no issue of new shares and any acquisition cost for the beneficiary.

The 2017 and 2018 Programs granted options that amounted 0.70% that, invested on the variation of the equity forecast for December 31, 2021 and 2022, respectively, in comparison with the plan’s reference equity for December 31, 2016 and 2017, would give rise to a granting exercise amount of R\$ 1,826, which at present value by the DI x Pré rate of B3 (252 base), considering the time already passed up to December 31, 2018 (vesting period) totals R\$ 220 (R\$132 net of the tax effects), which was provided for in long-term liabilities with reflection in the statements of operations and will adjusted in the subsequent period as long as the vesting periods provided by the 2017 and 2018 Programs are complied with, which end on December 31, 2021 and 2022 respectively.

### 24. Other information

On 12/31/2018, the net equity of the funds managed by Modal DTVM amounted to R\$ 25,401,192 (2017 – R\$ 7,786,886), net of the investment funds in quota funds that invest in internal funds.

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