

Banco Modal S.A. and Subsidiaries (CONEF)

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

(A free translation of the original in Portuguese)

Report of Independent Auditors

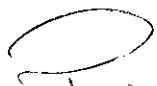
To the Board of Directors and Stockholders
Banco Modal S.A.

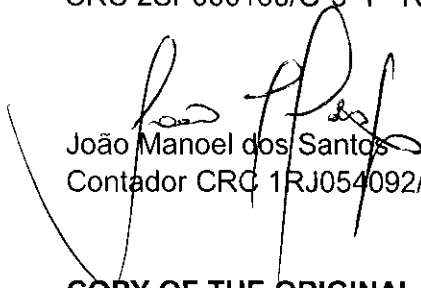
- 1 We have audited the accompanying balance sheet of Banco Modal S.A. and the consolidated balance sheet of Banco Modal S.A. and its subsidiaries (financial economic consolidation - CONEF) as of December 31, 2008, and the statements of income, of changes in stockholders' equity and of cash flows for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

Banco Modal S.A.

- 4 Previously, we have examined the financial statements of Banco Modal S.A. and the consolidated financial statement of Banco Modal S.A. and its subsidiaries (financial economic consolidate - CONEF) as of December 31, 2007, comprising the balance sheet, the statements of income, of changes in stockholders' equity and of changes in financial position for the year then ended, on which we issued our corresponding unqualified opinion dated January 18, 2008. As mentioned in Note 2(m), the accounting practices adopted in Brazil were changed as from January 1, 2008. The financial statements of the year ended December 31, 2007, presented with the financial statements of 2008, were prepared in accordance with the accounting practices adopted in Brazil prevailing until December 31, 2007 and, as allowed by the Technical Pronouncement CPC 13 - Initial Adoption of Law No. 11,638/07 and the Provisional Measure No. 449/08, they are not presented with reclassification and the statements necessary for purposes of comparison between the fiscal years.

Rio de Janeiro, January 27, 2009


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


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

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

Balance Sheets at December 31
In thousands of reais

(A free translation of the original in Portuguese)

Assets	Banco Modal S.A.		CONEF	
	2008	2007	2008	2007
Current assets				
Cash and cash equivalents				
Cash	100	160	103	162
Free reserves	354	688	354	688
Cash and cash equivalents in foreign currency	215	183	215	183
	<u>669</u>	<u>1,031</u>	<u>672</u>	<u>1,033</u>
Interbank investments - open market investments	<u>45,800</u>	<u>2,498</u>	<u>45,800</u>	<u>2,498</u>
Marketable securities and derivative financial instruments				
Own portfolio	138,176	110,200	138,176	111,803
Subject to repurchase agreements	182,013	122,293	182,013	122,293
Subject to guarantees	95,425	45,624	95,425	45,624
Subject to the Central Bank		6,093		6,093
Derivative financial instruments	67,238	53,634	67,238	53,634
	<u>482,852</u>	<u>337,844</u>	<u>482,852</u>	<u>339,447</u>
Interbank accounts				
Restricted receivables - deposits with the Brazilian Central Bank	2,474	89	2,474	89
Correspondent banks in Brazil	7	5	7	5
Others	1	1	1	1
	<u>2,482</u>	<u>95</u>	<u>2,482</u>	<u>95</u>
Credit operations				
Private sector				
Loans and discounted securities	105,073	243,978	105,073	243,978
Financings	21,769	19,331	21,769	19,331
FINAME/BNDES onlendings	580	4,455	580	4,455
(-) Allowance for loan losses	(8,927)	(6,313)	(8,927)	(6,313)
	<u>118,495</u>	<u>261,451</u>	<u>118,495</u>	<u>261,451</u>
Other receivables				
Foreign exchange portfolio	40,389	13,787	40,389	13,787
Income receivable	6,120	1,705		62
Negotiation and intermediation of securities		2,455		2,455
Others	27,626	19,062	28,688	21,307
(-) Allowance for losses	(409)	(148)	(409)	(148)
	<u>73,726</u>	<u>36,861</u>	<u>68,668</u>	<u>37,463</u>
Other receivables and assets				
Assets not for own use		800		800
Prepaid expenses	77	40	109	64
	<u>77</u>	<u>840</u>	<u>109</u>	<u>864</u>
	<u>724,101</u>	<u>640,620</u>	<u>719,078</u>	<u>642,851</u>
Long-term receivables				
Marketable securities and derivative financial instruments				
Subject to guarantees	20,757		20,757	
Derivative financial instruments	66	32,262	66	32,262
	<u>20,823</u>	<u>32,262</u>	<u>20,823</u>	<u>32,262</u>
Credit operations				
Loans and discounted securities	15,627	13,350	15,627	13,350
Financing		5,030		5,030
FINAME/BNDES onlendings	144	1,208	144	1,208
	<u>15,771</u>	<u>19,588</u>	<u>15,771</u>	<u>19,588</u>
Other credits - Sundry	<u>18,308</u>	<u>6,550</u>	<u>18,308</u>	<u>6,550</u>
	<u>54,902</u>	<u>58,400</u>	<u>54,902</u>	<u>58,400</u>
Permanent assets				
Investments				
In subsidiaries	3,320	3,310		
Other investments	381	682	569	682
Property and equipment	4,268	4,640	4,268	4,640
Deferred charges	1,027	1,315	1,027	1,315
Intangible assets	2,224		2,224	
	<u>11,220</u>	<u>9,947</u>	<u>8,088</u>	<u>6,637</u>
Total assets	<u>790,223</u>	<u>708,967</u>	<u>782,068</u>	<u>707,888</u>

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

Balance Sheets at December 31
In thousands of reais

(continued)

Liabilities	Banco Modal S.A.		CONEF	
	2008	2007	2008	2007
Current liabilities				
Deposits				
Demand deposits	8,521	6,642	8,518	6,635
Interbank deposits	20,424	8,860	20,424	8,860
Time deposits	94,524	183,348	85,059	180,851
Other		1		1
	<u>123,469</u>	<u>198,851</u>	<u>114,001</u>	<u>196,347</u>
Open market				
Own portfolio	181,109	120,933	181,109	120,933
Interbank accounts				
Services for clearing checks	21		21	
Borrowings				
Domestic borrowings	16,430		16,430	
Foreign borrowings	22,525	8,093	22,525	8,093
	<u>38,955</u>	<u>8,093</u>	<u>38,955</u>	<u>8,093</u>
Onlendings				
FINAME/BNDES	579	4,450	579	4,450
	<u>579</u>	<u>4,450</u>	<u>579</u>	<u>4,450</u>
Derivative financial instruments	37,790	15,002	37,790	15,002
Other liabilities				
Tax payment and collection	112	137	112	137
Foreign exchange portfolio	378		378	
Social and statutory	12,596	10,435	13,304	10,973
Taxes and social security contributions	48,100	31,064	48,665	31,947
Negotiation and intermediation of securities	6,319	8,193	6,319	8,193
Subordinated debts	2,838	3,491	2,838	3,491
Others	3,628	3,921	3,668	3,925
	<u>73,971</u>	<u>57,241</u>	<u>75,284</u>	<u>58,666</u>
	<u>455,894</u>	<u>404,570</u>	<u>447,739</u>	<u>403,491</u>
Long-term liabilities				
Deposits				
Time deposits	28,234	75,254	28,234	75,254
Onlendings				
FINAME/BNDES	144	1,208	144	1,208
Derivative financial instruments	28,017	25,732	28,017	25,732
Other liabilities				
Taxes and social security contributions	17,032	5,407	17,032	5,407
Subordinated debts	70,110	53,139	70,110	53,139
	<u>87,142</u>	<u>58,546</u>	<u>87,142</u>	<u>58,546</u>
	<u>143,537</u>	<u>160,740</u>	<u>143,537</u>	<u>160,740</u>
Stockholders' equity				
Capital				
Local residents	131,800	81,982	131,800	81,982
Capital increase		6,078		6,078
Capital reserve	372	291	372	291
Revenue reserves	56,089	54,309	56,089	54,309
Adjustment to market value - securities and derivatives	2,531	997	2,531	997
	<u>190,792</u>	<u>143,657</u>	<u>190,792</u>	<u>143,657</u>
Total liabilities and stockholders' equity	<u>790,223</u>	<u>708,967</u>	<u>782,068</u>	<u>707,888</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 Income

In thousands of reais, except for net income per share

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF		
	2 nd six-month period of 2008	Years ended December 31		Years ended December 31	
		2008	2007	2008	2007
Income from financial intermediation					
Credit operations	29,558	46,151	37,237	46,151	
Marketable securities	34,707	53,019	26,617	53,124	
Results on derivative financial instruments	43,347	104,827	40,655	104,827	
Income from foreign exchange operations	10,955	11,283	(105)	11,283	
	<u>118,567</u>	<u>215,280</u>	<u>104,404</u>	<u>215,385</u>	
Expenses on financial intermediation					
Funds obtained in the market	(31,954)	(55,489)	(24,147)	(54,859)	
Borrowings and onlendings	(32,258)	(28,737)	(2,740)	(28,737)	
Allowance for possible loan losses	(7,336)	(9,811)	(8,234)	(9,811)	
	<u>(71,548)</u>	<u>(94,037)</u>	<u>(35,121)</u>	<u>(93,407)</u>	
Gross profit from financial intermediation	<u>47,019</u>	<u>121,243</u>	<u>69,283</u>	<u>121,978</u>	
Other operating income (expenses)					
Income from services rendered	13,157	16,067	3,484	26,864	
Personnel expenses	(8,417)	(15,977)	(13,170)	(17,461)	
Other administrative expenses	(13,270)	(22,445)	(13,599)	(22,980)	
Taxes expenses	(5,339)	(9,047)	(4,499)	(9,704)	
Equity in the earnings of subsidiaries	2,580	6,130	2,028		
Other operating income		485	10,193	485	
Other operating expenses	(273)	(306)	(629)	(310)	
	<u>(11,562)</u>	<u>(25,093)</u>	<u>(16,192)</u>	<u>(23,106)</u>	
Operating Income	<u>35,457</u>	<u>96,150</u>	<u>53,091</u>	<u>98,872</u>	
Non-operating income	<u>682</u>	<u>677</u>		<u>677</u>	
Income before taxation and profit sharing	<u>36,139</u>	<u>96,827</u>	<u>53,091</u>	<u>99,549</u>	
Income tax and social contribution					
Provision for income tax	(14,733)	(25,653)	(10,528)	(26,672)	
Provision for social contribution	(9,927)	(15,022)	(3,865)	(15,408)	
Deferred tax asset	16,741	12,858	1,437	12,858	
	<u>(7,919)</u>	<u>(27,817)</u>	<u>(12,956)</u>	<u>(29,222)</u>	
Profit sharing	<u>(4,771)</u>	<u>(9,330)</u>	<u>(5,323)</u>	<u>(10,647)</u>	
Net income for the six-month period/years	<u>23,449</u>	<u>59,680</u>	<u>34,812</u>	<u>59,680</u>	
Interest on capital	<u>(4,500)</u>	<u>(8,900)</u>	<u>(7,150)</u>	<u>(8,900)</u>	
Net income per share - R\$	<u>626.28</u>	<u>1,593.93</u>	<u>950.37</u>		

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

Banco Modal S.A.

Statements of Changes in Stockholders' Equity
In thousands of reais

(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			
Year ended December 31, 2007								
At January 1, 2007	79,177	2,805	237	3,631	28,516	84		114,450
Restatement of equity securities - CETIP			54					54
Capital increase								
Confirmed by BACEN	2,805	(2,805)						6,078
Being confirmed by BACEN		6,078						913
Adjustment to market value - securities and derivatives						913		34,812
Net income for the year							34,812	34,812
Appropriations								
Constitution of reserves				1,740	20,422		(22,162)	(7,150)
Interest on capital (R\$ 195.20 per share)							(7,150)	(7,150)
Dividends proposed (R\$ 150.15 per share)							(5,500)	(5,500)
At December 31, 2007	81,982	6,078	291	5,371	48,938	997		143,657
Changes in 2007	2,805	3,273	54	1,740	20,422	913		29,207
Year ended December 31, 2008								
At January 1, 2008	81,982	6,078	291	5,371	48,938	997		143,657
Restatement of equity securities - CETIP			88					88
Write-off of reserve of stock exchange			(7)					(7)
Capital increase								
Confirmed by BACEN	49,818	(6,078)			(40,000)			3,740
Adjustment to market value - securities and derivatives						1,534		1,534
Net income for the year							59,680	59,680
Appropriations								
Constitution of reserves				2,984	38,796		(41,780)	(8,900)
Interest on capital (R\$ 237.70 per share)							(8,900)	(8,900)
Dividends proposed (R\$ 240.37 per share)							(9,000)	(9,000)
At December 31, 2008	131,800		372	8,355	47,734	2,531		190,792
Changes in 2008	49,818	(6,078)	81	2,984	(1,204)	1,534		47,135
Six-month period ended December 31, 2008								
At January 1, 2008	88,060	43,740	372	5,371	8,938	2,664	26,831	175,976
Capital increase								
Confirmed by BACEN	43,740	(43,740)						(133)
Adjustment to market value - securities and derivatives						(133)		23,449
Net income for the year							23,449	23,449
Appropriations								
Constitution of reserves				2,984	38,796		(41,780)	(4,500)
Interest on capital (R\$ 120.18 per share)							(4,500)	(4,500)
Dividends proposed (R\$ 106.83 per share)							(4,000)	(4,000)
At December 31, 2008	131,800		372	8,355	47,734	2,531		190,792
Changes in the 2nd six-month period of 2008	43,740	(43,740)		2,984	38,796	(133)	(26,831)	14,816

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

Year and Six-Month Period Ended December 31, 2008

In thousands of reais

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF
	2 nd six-month period of 2008	2008	2008
Cash flow of operating activities			
Net profit for the six-month period/year	23,449	59,680	59,680
Adjustments to net profit			
Allowance for loan losses	7,336	9,811	9,811
Depreciation and amortization	883	1,746	1,746
Loss due devaluation of asset (impairment)	378	378	378
Deferred income tax and social contribution	(16,741)	(12,858)	(12,858)
Current income tax and social contribution	24,660	40,675	42,080
Provision for COFINS	3,002	8,177	8,177
Profit sharing	4,771	4,771	4,771
Equity in earnings of subsidiaries	(2,580)	(6,130)	
Exchange variation of subordinated debt	22,353	16,971	16,971
Loss on the sale of fixed asset	1	2	2
Net adjusted profit	67,512	123,223	130,758
Increase in interbank investments	(45,400)	(43,302)	(43,302)
(Increase)/decrease in marketable securities	27,188	(149,452)	(147,849)
Decrease in derivative financial instruments	51,553	43,665	43,665
Increase in compulsory deposits with the Brazilian Central Bank	(2,372)	(2,385)	(2,385)
Decrease in interbank accounts	217	19	19
Decrease in credit operations, net of write-offs/recoveries	174,544	137,223	137,223
Increase in foreign exchange portfolio	(37,180)	(26,224)	(26,224)
Increase in other credits (including prepayment of IR and CSLL)	(10,939)	(10,786)	(9,603)
Increase in other receivable and assets	(7)	(37)	(45)
Increase/(decrease) in other liabilities	1,384	(23,328)	(24,846)
Net cash from operating activities	226,500	48,616	57,411
Cash flow of investment activities			
Acquisition of investment			(188)
Alienation of assets not for own use	800	800	800
Alienation of fixed asset for own use	3	6	6
Acquisition of fixed asset for own use	(375)	(1,082)	(1,082)
Increase in intangible assets	(2,232)	(2,232)	(2,232)
Received dividends and interest on capital		1,642	
Net cash used in investment activities	(1,804)	(866)	(2,696)
Cash flow of the financing activities			
Decrease in deposits	(185,107)	(122,402)	(129,366)
Increase/(decrease) of funds from the open market	(67,389)	60,176	60,176
Increase in liabilities due borrowings and onlendings	30,240	25,927	25,927
Increase/(decrease) in subordinated debts	2,180	(653)	(653)
Capital increase in cash		3,740	3,740
Dividends paid	(5,000)	(10,500)	(10,500)
Paid interest on capital		(4,400)	(4,400)
Net cash used in financing activities	(225,076)	(48,112)	(55,076)
Net decrease in cash and cash equivalents	(380)	(362)	(361)
Cash and cash equivalents at the beginning of the period/year	1,049	1,031	1,033
Cash and cash equivalents at the end of the period/year	669	669	672

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 Changes in Financial Position
Year Ended December 31, 2007**

In thousands of reais

(A free translation of the original in Portuguese)

	<u>Banco Modal S.A.</u>	<u>CONEF</u>
Financial resources were provided by		
Net income for year	34,812	34,812
Adjustments to net income		
Depreciation and amortization	1,200	1,200
Equity in the earnings of subsidiaries	(2,028)	_____
	<u>33,984</u>	<u>36,012</u>
Adjustment to market value - securities and derivative financial instruments	913	913
Funds from stockholders		
Capital increase	6,078	6,078
Third-party resources		
Increase in liabilities		
Deposits	181,686	180,348
Funds obtained in the open market	68,540	68,540
Derivative financial instruments	38,264	38,264
Other liabilities	20,419	21,477
Decrease in assets		
Interbank accounts	601	601
Other receivables and assets	31	29
Dividends earned from associated companies	<u>1,642</u>	<u>_____</u>
Total funds provided	<u>352,158</u>	<u>352,262</u>

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

**Statements of Changes in Financial Position
Year Ended December 31, 2007**

In thousands of reais

(continued)

	<u>Banco Modal S.A.</u>	<u>CONEF</u>
Financial resources were used for		
Dividends proposed	5,500	5,500
Interest on capital	7,150	7,150
Investments in		
Investments	9	
Property and equipment	2,108	2,108
Deferred charges	1,461	1,461
Increase in assets		
Interbank investments	397	397
Securities and derivative financial instruments	165,601	165,752
Credit operations	140,310	140,310
Other receivables	27,627	27,590
Decrease in liabilities		
Borrowings and onlendings	<u>1,347</u>	<u>1,347</u>
Total resources used	<u>351,510</u>	<u>351,615</u>
Increase in cash and cash equivalents	<u>648</u>	<u>647</u>
Changes in financial position		
Cash and cash equivalents		
At the beginning of the year	383	386
At the end of the year	<u>1,031</u>	<u>1,033</u>
Increase in cash and cash equivalents	<u>648</u>	<u>647</u>

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

(A free translation of the original in Portuguese)

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

**Notes to the Financial Statements
at December 31, 2008 and 2007
In thousands of reais**

1 Operations

Banco Modal S.A. is a joint-stock company, 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.

2 Significant Accounting Practices

The financial statements were prepared in accordance with the accounting practices adopted in Brazil, considering as from fiscal year 2008, the changes made by Law No. 11,638/07 and the Provisional Measure No. 449/08, and the rules and regulations established by the Brazilian Central Bank (BACEN). The financial statements include estimates relating to loan losses and other similar charges. The actual results may present variances in relation to the estimates.

(a) Determination of net income

Net income is determined on the accrual basis.

(b) Cash and cash equivalents

These comprise the money in cash in domestic and foreign currency, investments in gold, and in the open market and in interbank deposits with immediate liquidity and original due terms not surpassing ninety days and presenting 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.

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

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

In thousands of reais

- (ii) Securities held to maturity - Securities acquired for which the Bank has the intention and financial capacity 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.

(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.

(e) Allowance for loan losses

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, 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 loans and receivables losses, adjustments to the results for interest operations carried out in markets of future settlement and the provisions for the Social Contribution on Revenues (COFINS) the collection of which 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.

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(g) Permanent assets

Investments - Investments in subsidiaries are accounted for by the equity method. Other investments are valued at cost, and equity securities are updated based on the equity values and the result of these updates is recorded directly in a capital reserve - Restatement of equity securities.

Property and equipment - Stated at cost of acquisition, net of depreciation calculated on the straight-line basis, based on the useful lives of assets, being 10% for furniture and fixtures, machinery and equipment and 20% for data processing equipment.

Deferred charges - Basically comprises improvements to leasehold properties, recorded at cost of acquisition and amortized on the straight-line basis, considering the term of the lease. According to the provision of Resolution No. 3,617/08, the financial institutions must exclusively record in Deferred Assets the pre-operating expenses with restructuring which will effectively contribute for 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.

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

(h) Current and long-term 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 No. 11,272/08, altered the provisions of federal tax legislation, addressing mainly the Social Contribution on Net Income - CSLL, the Social Integration Program (PIS) and the Social Contribution on Revenues (COFINS).

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The calculation rate for the CSLL for financial institutions was increased from 9% to 15% as from May 2008.

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 - RTT, and should be considered for tax purposes, the accounting methods and criteria prevailing at December 31, 2007.

(j) Derivative financial instruments

Transactions with derivatives are recorded as follows:

- Options - the nominal values of call option contracts for stocks, financial assets and commodities, both written and purchased, 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.
- Futures - 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.

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Derivative financial instruments are valued at market values 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; and
- (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.

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

As from 2008, 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.

(m) Initial adoption of Law No. 11,638/07

The initial adoption of the law mentioned above did not present material impacts on the Bank's financial statements, taking into account that the main changes made by the new legislation, which affected the Bank, have already been adopted by the Bank due to the existing accounting standards issued by the BACEN. Considering the regulation issued by the BACEN, the balances related to users' licenses and costs of software development (Note 2 g) were classified in intangible assets. As from September 30, 2008, the account deferred charges had its use paralyzed, and no new expenses were recorded in this account.

The recoverable value of financial assets was assessed and an impairment loss in the account "other investments" in permanent assets, amounting to R\$ 378, was directly recognized in the result for the year 2008.

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Due to the initial adoption of the aforementioned Law and according to the provisions of the CPC Technical Pronouncement No. 13 and the Provisional Measure No. 449/08, the financial statements for the fiscal year ended December 31, 2007, presented with the financial statements as of December 31, 2008, were prepared in accordance with the accounting practices adopted in Brazil and prevailing until December 31, 2007 and are not being presented again with reclassifications and statements necessary for purposes of comparison between the fiscal years.

In this context and in accordance with the provisions of CMN Resolution No. 3,604/08, the statement of cash flow is presented for the second six-month period and the year ended December 31, 2008, without comparison with the prior year and, in the same way, the statement of changes in financial position for the year ended December 31, 2007 is being presented as originally prepared and without comparison with the current year.

3 Financial Statements of the Financial Economic Consolidation - CONEF

The financial statements of the financial economic consolidation (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 Corporate 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, 2008 and 2007 comprise those of Banco Modal S.A. and the wholly-owned subsidiaries Modal Trading S.A., 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

		2008			2007		
	Maturity (*)	Restated cost	Market value	Unrealized gain (loss)	Restated cost	Market value	Unrealized gain (loss)
Own portfolio							
Trading securities							
	Shares of listed companies				8,858	9,163	305
					8,858	9,163	305
Securities available for sale							
	Quotas of Investment Funds	13,999	13,999		6,512	6,512	
	Debentures	1,481	2,362	881	4,899	5,357	458
	National Treasury Bills	21	21		39,126	39,115	(11)
	Financial Treasury Bills	4,326	4,328	2			
	National Treasury Notes	116,473	117,466	993	49,712	50,053	341
		136,300	138,176	1,876	100,249	101,037	788
		136,300	138,176	1,876	109,107	110,200	1,093
Subject to repurchase agreement							
	Securities available for sale				36,704	36,624	(80)
	National Treasury Bills				85,086	85,669	583
	National Treasury Notes						
		180,475	182,013	1,538	121,790	122,293	503
		180,475	182,013	1,538	121,790	122,293	503
Subject to the Brazilian Central Bank							
	National Treasury Bills				6,093	6,093	-
Subject to guarantees							
	Trading securities				7,935	8,117	182
	Shares of listed companies						
Securities available for sale							
	Debentures	20,757	20,757		5,046	5,046	
	National Treasury Bills				32,240	32,461	221
	National Treasury Notes	94,619	95,425	806			
		115,376	116,182	806	37,286	37,507	221
		115,376	116,182	806	45,221	45,624	403

(*) For purposes of presentation, the securities available for sale are presented in current assets, independently from their respective maturity.

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The quota 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 up to the limit of 10% of the fund's assets. At December 31, 2008, the fund had a portfolio of credit rights amounting to R\$ 38,100, with an allowance for possible losses amounting to R\$ 644. The value in subordinated quotas held by the Bank at December 31, 2008 represented 28.47% of the Fund's stockholders' equity.

The portfolio of marketable securities in the consolidated financial statements at December 31, 2007 includes an amount of R\$ 1,601, represented by quota holdings in multimarket investment funds.

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>2008</u>	<u>2007</u>
At January 1	1,511	127
Adjustment in specific stockholders' equity account (Note 12(f))	<u>2,709</u>	<u>1,384</u>
At December 31	<u>4,220</u>	<u>1,511</u>

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(b) Derivative financial instruments

	2008			2007		
	Restated cost	Market value	Unrealized gain	Restated cost	Market value	Unrealized gain
Asset position						
Premiums on options to be exercised	2,311	4,276	1,965	47,485	31,166	(16,319)
Futures purchases receivable	6,309	6,399	90	70	35	(35)
Futures sales receivable	382	335	(47)			
Differential on swap transactions	54,573	56,294	1,721	50,651	54,695	4,044
	63,575	67,304	3,729	98,206	85,896	(12,310)
Current	63,444	67,238		56,660	53,634	
Long-term	131	66		41,546	32,262	
Liability position						
Premiums on written options	12,598	18,666	(6,068)	54,841	33,023	21,818
Futures purchases payable	88	7	81	468	229	239
Futures sales receivable	12	43	(31)			
Differential on swap transactions	55,645	47,091	8,554	8,255	7,482	773
	68,343	65,807	2,536	63,564	40,734	22,830
Current	32,722	37,790		30,004	15,002	
Long-term	35,621	28,017		33,560	25,732	

The adjustments to market values of derivative financial instruments, carried out in the year, amounting to R\$ 4,255 (2007 - R\$ 116) were recorded in the results for the year "Results on derivative financial instruments".

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, 2007.

The operations with these instruments are registered at the Futures and Commodities Exchange (BM&F), the Clearing House for the Custody and Financial Settlement of Securities (CETIP) and/or the Brazilian Custody and Settlement Company (CBLC). For the operations maintained with these institutions at December 31, 2008, margins amounting to R\$ 88,039 (2007 - R\$ 45,624) in guarantee were required and they were represented by public securities and/or shares of listed companies.

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Commitments assumed in respect of operations with derivatives recorded in memorandum accounts at December 31, 2008 and 2007 were as follows:

(b.1) By index

	<u>Custody location</u>	<u>2008</u>		<u>2007</u>	
		<u>Purchased position</u>	<u>Sold position</u>	<u>Purchased position</u>	<u>Sold position</u>
Options market					
Financial assets					
Call options	CETIP		61,293		
Call options	BM&F	242,000	413,062	1,323,181	1,716,845
Put options	BM&F			337,875	243,960
Futures market					
Interest rate	BM&F	21,209	966,749	168	617,543
Currency	BM&F	170,327	299,666	146,999	7,746
Stock exchange index	BM&F				8,367
Exchange coupon	BM&F	151,412	58,281	113,968	69,295
Term transactions					
Currency	CETIP	28,963	7,628	22,067	3,602
Swap					
Interest rate	CETIP	202,512	79,982	107,400	100,476
Currency	CETIP	137,052	281,232	271,929	268,242
Interest rate	BM&F	672,981	1,193,281	239,395	1,225,363
Price indexes	BM&F	1,212,952	661,799	1,269,234	246,664

(b.2) 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>2008</u>	<u>2007</u>
Options market							
Financial assets							
Purchase contracts	242,000					242,000	1,661,056
Sales contracts	368,933	79,963	25,459			474,355	1,960,805
Futures market							
Purchase contracts	42,837	150,836	37,134	90,932	21,209	342,948	261,135
Sales contracts	529,199	247,523	547,974			1,324,696	702,951
Term transactions							
Purchase contracts		4,995	14,871	9,097		28,963	22,067
Sales contracts	4,025		3,603			7,628	3,062
Swap							
Asset position	1,923,401	65,436	37,979	9,084	189,597	2,225,497	1,887,958
Liability position	1,891,631	66,664	31,714	8,737	217,548	2,216,294	1,840,745

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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 in 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.

(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.

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(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 CMN. This rating considers, among other factors, a periodic analysis of the operation, overdue payments, the client's history and guarantees provided, when applicable.

The classification of loan operations is as follows:

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

Type of credit	Type of client	Economic activity	Risk level	2008		2007		Allowance percentage according to CMN Resolution No. 2,682/99
				Classification of portfolio by risk	Allowance for losses	Classification of portfolio by risk	Allowance for losses	
Loans and discounted notes	Corporate	Industry	AA	204		4,263		
	Corporate	Commerce	AA			2,630		
	Corporate	Services	AA			3,080		
	Individual	Individual	AA	393		393		
	Corporate	Industry	A	13,766	(69)	81,144	(406)	0.50%
	Corporate	Commerce	A	5,733	(29)	7,734	(38)	0.50%
	Corporate	Services	A	25,279	(126)	47,699	(239)	0.50%
	Corporate	Industry	B	31,732	(317)	37,893	(379)	1.00%
	Corporate	Commerce	B	2,269	(23)	9,282	(93)	1.00%
	Corporate	Services	B	9,046	(90)	35,046	(351)	1.00%
	Corporate	Industry	C	19,829	(595)	154	(5)	3.00%
	Corporate	Commerce	C	3,495	(105)	99	(3)	3.00%
	Corporate	Services	C	4,692	(141)	12,457	(373)	3.00%
	Corporate	Industry	D			11,061	(1,106)	10.00%
	Corporate	Commerce	D			68	(7)	10.00%
	Corporate	Services	D	214	(21)	858	(86)	10.00%
	Corporate	Industry	E			607	(182)	30.00%
	Corporate	Services	E			68	(20)	30.00%
	Corporate	Services	F	2	(1)			50.00%
	Corporate	Commerce	G	284	(199)			70.00%
Corporate	Services	G	338	(236)	317	(222)	70.00%	
Corporate	Industry	H	2,485	(2,485)	645	(645)	100.00%	

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Type of credit	Type of client	Economic activity	Risk level	2008		2007		Allowance percentage according to CMN Resolution No. 2,682/99
				Classification of portfolio by risk	Allowance for losses	Classification of portfolio by risk	Allowance for losses	
	Corporate	Commerce	H	111	(111)	12	(12)	100.00%
	Corporate	Services	H	828	(828)	1,818	(1,818)	100.00%
Financing	Corporate	Industry	A			5,085	(25)	0.50%
	Corporate	Industry	B	18,406	(185)	5,030	(50)	1.00%
	Corporate	Commerce	B			6,151	(62)	1.00%
	Corporate	Services	B			5,048	(50)	1.00%
	Corporate	Commerce	C			3,047	(91)	3.00%
	Corporate	Services	H	3,363	(3,363)			100.00%
Advances on exchange contracts - ACC (i)	Corporate	Services	A			1,842	(10)	0.50%
	Corporate	Services	B	29,793	(298)	12,227	(122)	1.00%
	Corporate	Services	C	3,701	(111)	539	(16)	3.00%
Onlendings FINAME/BNDES:	Corporate	Industry	AA	332		772		
	Corporate	Commerce	AA			252		
	Corporate	Industry	A			2,553	(13)	0.50%
	Corporate	Commerce	A			1,007	(5)	0.50%
	Corporate	Industry	B	145	(1)			1.00%
	Individual	Individual	B	247	(2)			1.00%
	Individual	Individual	C			1,079	(32)	3.00%
Current				160,916	(9,336)	287,562	(6,461)	
Long-term				15,771		14,398		

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

(b) By maturity

	2008							Total
	Overdue				Falling due			
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Up to 180 days	From 181 to 360 days	After 360 days	
Loans and discounted notes					62,523	20,885	15,627	120,700
Financings	19,826	426	934	479	18,406			21,769
Onlending FINAME/BNDES	3,363				347	233	144	724
Advances - ACC					14,773	18,721		33,494
	23,189	426	934	479	96,049	39,839	15,771	176,687

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	2007						Falling due	Total
	Overdue							
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Up to 180 days	From 181 to 360 days		
Loans and discounted notes	6,727	772	2,351		192,648	41,480	13,350	257,328
Financings					14,730	4,601	5,030	24,361
Onlending FINAME/BNDES					2,978	1,477	1,208	5,663
Advances - ACC					14,608			14,608
	<u>6,727</u>	<u>772</u>	<u>2,351</u>		<u>224,964</u>	<u>47,558</u>	<u>19,588</u>	<u>301,960</u>

(c) Credit assignment

The Bank carried out credit assignments without co-obligations, 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:

	<u>2008</u>	<u>2007</u>
Book value of credits assigned	592,715	305,163
Trading value of credits assigned	<u>587,164</u>	<u>304,916</u>
Net loss on credit assignments	<u>(5,551)</u>	<u>(247)</u>

**(d) Movement in the allowance
for loan losses**

	<u>2008</u>	<u>2007</u>
At the beginning of the year	6,461	4,860
Constituted during the year	9,811	8,234
Credits written-off during the year	(7,106)	(6,633)
Recovery of credits during the year	<u>170</u>	
At the end of the year	<u>9,336</u>	<u>6,461</u>

During the year operations amounting to R\$ 180,397 (2007 - R\$ 83,620) were renegotiated.

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7 Foreign Exchange Portfolio

	<u>2008</u>	<u>2007</u>
Other receivables		
Exchange purchases pending settlement	39,544	13,365
Income receivable from advances (i)	<u>845</u>	<u>422</u>
	<u>40,389</u>	<u>13,787</u>
Other liabilities		
Liabilities from exchange purchases	33,027	14,186
Advances on foreign exchange contracts (i)	<u>(32,649)</u>	<u>(14,186)</u>
	<u>378</u>	<u></u>

(i) Note 6.a.

8 Investments in Subsidiaries

The investments in the Bank's subsidiaries are constituted by the wholly owned subsidiaries Modal Trading S.A., Modal Energy S.A. 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. Modal Trading S.A has as its objective the import, export and trade of products and mediation and Modal Energy S.A has as its objective the trading of electricity power in the free negotiation market, both without recent activities.

	<u>2008</u>			<u>2007</u>		
	<u>Modal Trading S.A.</u>	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>	<u>Modal Trading S.A.</u>	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>
Number of shares/quotas held	100	100	996,998	100	100	551,998
Participation of Banco Modal S.A.	100%	100%	100%	100%	100%	100%
Capital	2,084	146	997	2,084	146	998
Stockholders'/Quotaholders' equity	2,169	154	997	2,159	153	998
Net income for the year	199	9	5,922	199	8	1,821
Book value of investments	2,169	154	997	2,159	153	998
Equity in the earnings	199	9	5,922	199	8	1,821

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During the year, subsidiaries distributed/provided dividends amounting to R\$ 6,120 (2007 - R\$ 1,642).

9 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).

10 Borrowings and Onlendings

(a) Borrowings

Domestic:

	<u>2008</u>	<u>2007</u>
Represented by borrowings from the Brazilian Central Bank subject to: Libor rate plus 1.5% (one point five per cent) per annum (p.a.), with maturities up to November 2009.	16,430	
Current	16,430 <u>(16,430)</u>	

Foreign:

	<u>2008</u>	<u>2007</u>
Represented by borrowings from Financial Institutions abroad, subject to: Libor rate plus 1.1% to 2.75 % p.a., with maturities up to August 2009.	22,525	8,093
Current	22,525 <u>22,525</u>	8,093 <u>8,093</u>

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(b) Onlending

Domestic:

	<u>2008</u>	<u>2007</u>
Represented by borrowings from the National Bank for Economic and Social Development (BNDES) and the Government Agency for Machinery and Equipment Financing (FINAME), subject to Long-term Interest Rate (TJLP) plus interest from 1.0% to 3.0% p.a. with maturities up to September 2010	723	5,401
Interest from 2.5% to 3% p.a. and restatement according to the BNDES currency basket,		<u>257</u>
Current	<u>(579)</u>	<u>(4,450)</u>
Long-term	<u>144</u>	<u>1,208</u>

11 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:

	<u>2008</u>		<u>2007</u>	
	Income tax	Social contribution	Income tax	Social contribution
Result before taxation and profit sharing	96,827	96,827	53,091	53,091
Profit sharing	(9,330)	(9,330)	(5,323)	(5,323)
Interest on capital	(8,900)	(8,900)	(7,150)	(7,150)
Adjustment to market value of securities and derivatives	4,555	4,555	(2,121)	(2,121)
Equity in the earnings of subsidiaries	(6,130)	(6,130)	(2,028)	(2,028)
Allowance for loan losses	5,081	5,081	6,285	6,285
Provision for COFINS with suspend liabilities (Note 14)	8,177	8,177	3,420	3,420
Adjustment of interest operations in futures market	13,062	13,062	(3,354)	(3,354)
Other permanent additions	1,559	1,546	133	128
Other temporary additions	378	378		
Fiscal incentives	<u>(2,573)</u>		<u>(744)</u>	
Calculation basis	102,706	105,266	42,209	42,947
Nominal rate	25%	9%	25%	9%
Additional 6% for CSLL as from May 2008		6%		
Income tax and social contribution	<u>25,653</u>	<u>15,022</u>	<u>10,528</u>	<u>3,865</u>
Constitution (reversal) of deferred tax liability on the adjustment to market value - securities and derivatives	(1,139)	(34)	530	191

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	2008		2007	
	Income tax	Social contribution	Income tax	Social contribution
Constitution (reversal) of tax credits on allowance for loan losses and other temporary differences	(6,580)	(5,105)	(1,588)	(572)
Deferred income tax and social contribution	(7,719)	(5,139)	(1,057)	(381)
Income tax and social contribution - Bank	17,934	9,883	9,471	3,485
Income tax and social contribution - Modal Trading	42	24	42	24
Income tax and social contribution - Modal Energy	2	1	2	1
Income tax and social contribution - Modal Asset	975	360	419	160
Total CONEF	18,953	10,268	9,934	3,670
	<u>29,222</u>		<u>13,604</u>	

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

	2008	2007
Other credits - sundry		
Deferred tax assets		
Adjustment to market value - securities and derivatives	4,885	9,345
Allowance for loan losses	8,400	5,412
Interest operations - futures market	4,261	
Other provisions - COFINS	5,580	1,963
	23,126	16,720
Current	(4,818)	(10,170)
Long-term	<u>18,308</u>	<u>6,550</u>
Other liabilities - fiscal and social security		
Deferred tax liabilities		
Adjustment to market value - securities and derivatives	9,079	13,538
Interest operations - futures market		819
	9,079	14,357
Current	(5,997)	(8,950)
Long-term	<u>3,082</u>	<u>5,407</u>

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12 Stockholders' Equity

(a) Capital

Capital comprises 18,721 common shares (2007 - 18,315) and 18,721 nominative preferred shares (2007 -18,315), with no par value.

At the Extraordinary General Meeting held on December 28, 2007, the stockholders approved the capital increase of the Bank by R\$ 6,078 with funds from the interest on capital, through the issuance of 1,480 shares, divided into 740 new common shares and 740 new preferred shares.

At the Extraordinary General Meeting held on May 30, 2008, the stockholders approved the capital increase of the Bank by R\$ 40,000, through the partial incorporation of the statutory reserve, without the issuance of new shares.

At the Extraordinary General Meeting held on June 30, 2008, the stockholders approved the capital increase of the Bank by R\$ 3,740, with funds from interest on capital, through the issuance of 812 shares, divided into 406 new common shares and 406 new preferred shares. This increase was confirmed by BACEN on July 8, 2008.

At Extraordinary General Meetings held on June 27, 2008 and December 29, 2008, the stockholders approved the anticipated dividend distribution and interest on capital on the profit for the fiscal year 2008 totaling R\$ 9,000 and R\$ 8,900, respectively.

(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 Law No. 6,404/76.

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. The total of interest on capital proposed with this purpose and the anticipated dividends of the fiscal year 2008 was higher than the statutory minimum.

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(c) Interest on capital

In the year ended December 31, 2008, 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\$ 8,900, corresponding to R\$ 237.70 per share (2007 - R\$ 7,150; R\$ 195.20 per share), which reduced the income tax and social contribution charge by R\$ 3,495 (2007 - R\$ 2,431).

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 stockholders' equity.

(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 Corporate 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>2008</u>	<u>2007</u>
At January 1	997	84
Adjustment of securities (Note 4)	2,709	1,384
Tax effects	<u>(1,175)</u>	<u>(471)</u>
At December 31	<u><u>2,531</u></u>	<u><u>997</u></u>

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13 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.

As from July 1, the calculation of the Basel limit was changed and is now made as follows:

The financial institutions should permanently maintain the value of the Regulatory Capital, 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 (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 the 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 commodities' prices (PCOM), portion related to the risk of operations subject to variation of shares' price (PACS), classified in the negotiation portfolio, according to the Resolution No. 3,464, of 2007 and the portion related to the operating risk (POPR).

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

	<u>2008</u>	<u>2007</u>
Regulatory capital (PR)	262,425	187,699
Stockholders' equity required (PRE)	<u>115,382</u>	<u>89,759</u>
Margin	<u>147,043</u>	<u>97,940</u>

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14 Contingent Liabilities

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. 3,535/08, 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.

The Bank is 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 federal public administration amounting to R\$ 3,950 (2007 - R\$ 5,773) 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 the fiscal year 2008, the Bank constituted R\$ 8,177, of these R\$ 1,433 relates to restatements at the SELIC rate.

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

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15 Related Parties

The operations with related parties to Banco Modal S.A. for the years ended December 31, 2008 and 2007 are presented as follows:

	<u>2008</u>	<u>2007</u>
Assets		
Other receivables - others	268	107
Derivative financial instruments		8,850
Liabilities		
Demand deposits	18	18
Time deposits	58,475	42,463
Derivative financial instruments	35,846	
Subordinated debts (Note 9)	72,948	56,630
Other liabilities - others	88	88
Results		
Income from derivatives		8,850
Expenses with derivatives	(35,846)	
Expenses with funds obtained in the market	(4,041)	(2,608)
Expenses with loans taken abroad	(20,815)	(6,404)
Income from services rendered	126	126
Expenses with services rendered	(442)	(442)

16 Other Information

- (a) At December 31, 2008, the account "Other receivables" mainly comprised the prepayment of taxes to be offset amounting to R\$ 17,404 (2007 - R\$ 5,494), R\$ 23,126 (2007 - R\$ 16,720) of deferred tax assets as described in Note 11, and R\$ 4,235 (2007 - R\$ 36) related to domestic several debtors.
- (b) Income from services rendered refers basically to the income from the management and administration of investment funds amounting to R\$ 253 (2007 - R\$ 509), consolidated R\$ 10,671 (2007 - R\$ 4,830) and commissions received for consulting and structured operations for clients amounting to R\$ 12,551 (2007- R\$ 2,043). The net asset value of the funds managed by the Bank at December 31, 2008 totaled R\$ 1,050,072 (2007 - R\$1,463,835).

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- (c) At December 31, 2007, "Other operating income" refers substantially to income from exchange variations, amounting to R\$ 8,239, arising from liabilities for securities issued overseas (Note 9); whose hedge, performed through derivative financial instruments, had contrary results and were recorded in " Results on derivative financial instruments "
- (d) At December 31, 2008, the Bank had co-obligations for guarantees provided amounting to R\$ 321,021 (2007 - R\$ 279,274). Management does not expect losses arising from these operations.

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