

“A free translation of the original in Portuguese”

**Banco Modal S.A. and Banco
Modal S.A. and subsidiary
companies (CONEF)**

**Financial Statements at
December 31, 2009 and 2008
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 sheets of Banco Modal S.A. and the consolidated balance sheets of Banco Modal S.A. and its subsidiary companies (financial economic consolidation - CONEF) as of December 31, 2009 and 2008 and the related statements of income, of changes in stockholders' equity and of cash flows of Banco Modal S.A. for the years then ended and for the second six-month period of 2009, as well as the consolidated statements of income and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our 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 Company, (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 of Banco Modal S.A. and its subsidiary companies (financial economic consolidation - CONEF) at December 31, 2009 and 2008 and the result of its operations, the changes in stockholders' equity and cash flows of Banco Modal S.A. for the years then ended and for the second six-month period of 2009, as well as the consolidated result of the operations and consolidated cash flows for the years then ended, in accordance with the accounting practices adopted in Brazil.

Rio de Janeiro, January 28, 2010

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

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

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Balance Sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF	
	2009	2008	2009	2008
Assets				
Current assets				
Cash and cash equivalents				
Cash	104	100	107	103
Free reserves	392	354	392	354
Cash and cash equivalents in foreign currency	3,718	215	3,718	215
	<u>4,214</u>	<u>669</u>	<u>4,217</u>	<u>672</u>
Interbank investments - open market investments	<u>51,006</u>	<u>45,800</u>	<u>51,006</u>	<u>45,800</u>
Marketable securities and derivative financial instruments				
Own portfolio	249,451	138,176	249,451	138,176
Subject to repurchase agreements	195,978	182,013	195,978	182,013
Subject to guarantees	88,418	95,425	88,418	95,425
Derivative financial instruments	21,149	67,238	21,149	67,238
	<u>554,996</u>	<u>482,852</u>	<u>554,996</u>	<u>482,852</u>
Interbank accounts				
Restricted receivables - deposits with the Brazilian Central Bank	1,520	2,474	1,520	2,474
Correspondent banks in Brazil	2,049	7	2,049	7
Others		1		1
	<u>3,569</u>	<u>2,482</u>	<u>3,569</u>	<u>2,482</u>
Credit operations				
Private sector				
Loans and discounted securities	128,917	105,073	128,917	105,073
Financings		21,769		21,769
FINAME/BNDES onlendings	139	580	139	580
(-) Allowance for loan losses	(4,757)	(8,927)	(4,757)	(8,927)
	<u>124,299</u>	<u>118,495</u>	<u>124,299</u>	<u>118,495</u>
Other receivables				
Foreign exchange portfolio	30,027	40,389	30,027	40,389
Income receivable	5,626	6,120		
Negotiation and intermediation of securities	2,401		2,401	
Others	13,790	27,626	16,804	28,688
(-) Allowance for losses	(335)	(409)	(335)	(409)
	<u>51,509</u>	<u>73,726</u>	<u>48,897</u>	<u>68,668</u>
Other receivables and assets				
Assets not for own use	2,957		2,957	
Prepaid expenses	160	77	160	109
	<u>3,117</u>	<u>77</u>	<u>3,117</u>	<u>109</u>
	<u>792,710</u>	<u>724,101</u>	<u>790,101</u>	<u>719,078</u>

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Balance Sheets at December 31
In thousands of reais

(continued)

Assets	Banco Modal S.A.		CONEF	
	2009	2008	2009	2008
Long-term receivables				
Marketable securities and derivative financial instruments				
Subject to guarantees	22,478	20,757	22,478	20,757
Derivative financial instruments	35,047	66	35,047	66
	<u>57,525</u>	<u>20,823</u>	<u>57,525</u>	<u>20,823</u>
Credit operations				
Loans and discounted securities	80,680	15,627	80,680	15,627
FINAME/BNDES onlendings		144		144
	<u>80,680</u>	<u>15,771</u>	<u>80,680</u>	<u>15,771</u>
Other credits - sundry	<u>20,142</u>	<u>18,308</u>	<u>20,142</u>	<u>18,308</u>
	<u>158,347</u>	<u>54,902</u>	<u>158,347</u>	<u>54,902</u>
Permanent assets				
Investments				
In subsidiaries	1,151	3,320		
Other investments	2	381	2	569
Property and equipment	4,349	4,268	4,349	4,268
Deferred charges	723	1,027	723	1,027
Intangible assets	3,021	2,224	3,021	2,224
	<u>9,246</u>	<u>11,220</u>	<u>8,095</u>	<u>8,088</u>
Total assets	<u>960,303</u>	<u>790,223</u>	<u>956,543</u>	<u>782,068</u>

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Balance Sheets at December 31 In thousands of reais

(continued)

	Banco Modal S.A.		CONEF	
	2009	2008	2009	2008
Liabilities and Stockholders' Equity				
Current liabilities				
Deposits				
Demand deposits	5,421	8,521	5,415	8,518
Interbank deposits	5,190	20,424	5,190	20,424
Time deposits	127,073	94,524	122,105	85,059
Others	100		100	
	<u>137,784</u>	<u>123,469</u>	<u>132,810</u>	<u>114,001</u>
Open market				
Own portfolio	195,409	181,109	195,409	181,109
Third-parties portfolio	49,744		49,744	
	<u>245,153</u>	<u>181,109</u>	<u>245,153</u>	<u>181,109</u>
Funds from acceptance and issue of securities				
Housing loan bills	1,336		1,336	
Agribusiness credit notes	13,684		13,684	
	<u>15,020</u>		<u>15,020</u>	
Interbank accounts				
Services for clearing checks		21		21
Borrowings				
Domestic borrowings	18,117	16,430	18,117	16,430
Foreign borrowings	1,747	22,525	1,747	22,525
	<u>19,864</u>	<u>38,955</u>	<u>19,864</u>	<u>38,955</u>
Onlendings				
FINAME/BNDES	139	579	139	579
	<u>139</u>	<u>579</u>	<u>139</u>	<u>579</u>
Derivative financial instruments	25,490	37,790	25,490	37,790
Other liabilities				
Tax payment and collection	132	112	132	112
Foreign exchange portfolio	2,611	378	2,611	378
Social and statutory	4,356	12,596	4,642	13,304
Taxes and social security contributions	4,379	48,100	5,229	48,665
Negotiation and intermediation of securities	8,138	6,319	8,138	6,319
Subordinated debts	1,921	2,838	1,921	2,838
Others	4,403	3,628	4,481	3,668
	<u>25,940</u>	<u>73,971</u>	<u>27,154</u>	<u>75,284</u>
	<u>469,390</u>	<u>455,894</u>	<u>465,630</u>	<u>447,739</u>

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Balance Sheets at December 31 In thousands of reais

(continued)

	Banco Modal S.A.		CONEF	
	2009	2008	2009	2008
Liabilities and Stockholders' Equity				
Long-term liabilities				
Deposits				
Time deposits	154,687	28,234	154,687	28,234
Funds from acceptance and issue of securities				
Housing loan bills	57,381		57,381	
Onlendings				
FINAME/BNDES		144		144
Derivative financial instruments	3,446	28,017	3,446	28,017
Other liabilities				
Taxes and social security contributions	20,649	17,032	20,649	17,032
Subordinated debts	52,236	70,110	52,236	70,110
	72,885	87,142	72,885	87,142
	288,399	143,537	288,399	143,537
Stockholders' equity				
Capital				
Local residents	183,730	131,800	183,730	131,800
Capital increase	4,930		4,930	
Capital reserve		372		372
Revenue reserves	13,852	56,089	13,852	56,089
Adjustment to market value - securities and derivatives	2	2,531	2	2,531
	202,514	190,792	202,514	190,792
Total liabilities and stockholders' equity	960,303	790,223	956,543	782,068

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

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Statements of Income

In thousands of reais, unless otherwise indicated

(A free translation of the original in Portuguese)

	Banco Modal S.A.		CONEF		
	2 nd six-month period of 2009	Years ended December 31		Years ended December 31	
		2009	2008	2009	2008
Income from financial intermediation					
Credit operations	2,941	13,594	46,151	13,594	46,151
Marketable securities	34,354	68,452	53,019	68,452	53,124
Results on derivative financial instruments	(10,712)	(8,178)	104,827	(8,178)	104,827
Income from foreign exchange operations	1,684		11,283		11,283
	<u>28,267</u>	<u>73,868</u>	<u>215,280</u>	<u>73,868</u>	<u>215,385</u>
Expenses on financial intermediation					
Funds obtained in the market	(26,990)	(46,834)	(55,489)	(46,487)	(54,859)
Borrowings and onlendings	(571)	(1,247)	(28,737)	(1,247)	(28,737)
Exchange transactions expenses		(4,337)		(4,337)	
Allowance for doubtful accounts	6,915	254	(9,811)	254	(9,811)
	<u>(20,646)</u>	<u>(52,164)</u>	<u>(94,037)</u>	<u>(51,817)</u>	<u>(93,407)</u>
Gross profit from financial intermediation	<u>7,621</u>	<u>21,704</u>	<u>121,243</u>	<u>22,051</u>	<u>121,978</u>
Other operating income (expenses)					
Income from services rendered	7,814	10,446	16,067	25,096	26,864
Personnel expenses	(8,657)	(16,379)	(15,977)	(17,960)	(17,461)
Other administrative expenses	(10,195)	(20,306)	(22,445)	(20,787)	(22,980)
Tax expenses	(1,832)	(4,104)	(9,047)	(4,970)	(9,704)
Equity in the earnings of subsidiaries	5,681	9,918	6,130	148	
Other operating income	8,586	24,213	485	24,213	485
Other operating expenses	(5,096)	(5,165)	(306)	(5,165)	(310)
	<u>(3,699)</u>	<u>(1,377)</u>	<u>(25,093)</u>	<u>575</u>	<u>(23,106)</u>
Operating income	<u>3,922</u>	<u>20,327</u>	<u>96,150</u>	<u>22,626</u>	<u>98,872</u>
Non-operating income	<u>17</u>	<u>255</u>	<u>677</u>	<u>171</u>	<u>677</u>
Income before taxation and profit sharing	<u>3,939</u>	<u>20,582</u>	<u>96,827</u>	<u>22,797</u>	<u>99,549</u>
Income tax and social contribution					
Provision for income tax	2,836		(25,653)	(1,263)	(26,672)
Provision for social contribution	1,745		(15,022)	(463)	(15,408)
Deferred tax asset	45	1,664	12,858	1,664	12,858
	<u>4,626</u>	<u>1,664</u>	<u>(27,817)</u>	<u>(62)</u>	<u>(29,222)</u>
Profit sharing	<u>(2,356)</u>	<u>(3,883)</u>	<u>(9,330)</u>	<u>(4,372)</u>	<u>(10,647)</u>
Net income for the six-month period/year	<u>6,209</u>	<u>18,363</u>	<u>59,680</u>	<u>18,363</u>	<u>59,680</u>
Interest on capital	<u>(5,800)</u>	<u>(11,600)</u>	<u>(8,900)</u>	<u>(11,600)</u>	<u>(8,900)</u>
Net income per share - R\$	<u>157.84</u>	<u>466.80</u>	<u>1,593.93</u>		

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

Capital increase	Capital reserve	Revenue Reserves		Adjustment to market value of securities and derivatives	Retained earnings	Total
	Restatement of equity securities	Legal	Statutory			
6,078	291 88 (7)	5,371	48,938	997		143,657 88 (7)
(6,078)			(40,000)			3,740
				1,534	59,680	1,534 59,680
		2,984	38,796		(41,780) (8,900) (9,000)	(8,900) (9,000)
	372	8,355	47,734	2,531		190,792
(6,078)	81	2,984	(1,204)	1,534		47,135
	372 (372)	8,355	47,734	2,531		190,792 (372)
4,930			(47,000)			4,930
				(2,529)	18,363	4,930 (2,529) 18,363
		919	5,844		(6,763) (11,600)	(11,600)
			(2,000)			(2,000)
4,930		9,274	4,578	2		202,514
4,930	(372)	919	(43,156)	(2,529)		11,722
4,930		8,963	53,480	667		199,840
(4,930) 4,930			(47,000)			4,930
				(665)	6,209	(665) 6,209
		311	98		(409) (5,800)	(5,800)
			(2,000)			(2,000)
4,930		9,274	4,578	2		202,514

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Statements of Cash Flows

In thousands of reais

(A free translation of the original in Portuguese)

	Banco Modal S.A.			CONEF	
	2 nd six-month period of 2009	Years ended December 31		Years ended December 31	
		2009	2008	2009	2008
Cash flows form operating activities					
Net income	6,209	18,363	59,680	18,363	59,680
Adjustments to net income					
Allowance for doubtful accounts	(6,915)	(254)	9,811	(254)	9,811
Depreciation and amortization	820	1,718	1,746	1,718	1,746
Deferred income tax and social contribution	(45)	(1,664)	(12,858)	(1,664)	(12,858)
Equity in the earnings of subsidiary and associated companies	(5,681)	(9,918)	(6,130)	(148)	
Provision for current income tax and social contribution	(4,581)		40,675	1,726	42,080
Loss due devaluation of assets (impairment)			378		378
Provision for COFINS	1,626	4,133	8,177	4,133	8,177
Profit sharing	2,356	3,883	4,771	4,372	4,771
Capital gain on the sale of investments	(1)	(1)		(1)	
Interest/exchange variation on subordinate debt	(5,124)	(15,146)	16,971	(15,146)	16,971
Loss on the sale of property and equipment	2	3	2	3	2
Net income/ (loss) adjusted	(11,334)	1,117	123,223	13,102	130,758
(Increase)/decrease in interbank investments	127,493	(5,206)	(43,302)	(5,206)	(43,302)
(Increase)/decrease in marketable securities trading portfolio		937	17,280	937	17,280
(Increase)/decrease in derivative financial instruments	(26,363)	(25,763)	43,665	(25,763)	43,665
(Increase)/decrease in compulsory deposits with BACEN	940	926	(2,385)	926	(2,385)
(Increase)/decrease in interbank and interdepartmental accounts	(2,599)	(2,034)	19	(2,034)	19
(Increase)/decrease in credit operations	(31,069)	(70,533)	137,223	(70,533)	137,223
Increase in interdepartmental accounts	(347)				
(Increase)/decrease foreign exchange portfolio	23,877	12,594	(26,224)	12,594	(26,224)
(Increase)/decrease in other credits	2,430	11,578	(10,786)	7,649	(9,603)
Increase in other assets	(43)	(83)	(37)	(53)	(45)
(Increase)/decrease in other liabilities	8,680	(50,076)	(23,328)	(50,412)	(24,846)
Net cash from/(used in) operating activities	91,665	(126,543)	215,348	(118,793)	222,540
Cash flow of investing activities					
(Increase)/decrease in marketable securities portfolio available for sale	(306,035)	(121,556)	(166,732)	(121,556)	(165,129)
Decrease in investment capital	2,168	2,168			
Sale of investments	150	529		717	
Sale of assets not for own use			800		800
Acquisition of assets not for own use		(2,957)		(2,957)	
Sale of property and equipment	3	108	6	108	6
Acquisition of property and equipment	(1,259)	(1,499)	(1,082)	(1,499)	(1,082)
Increase in intangible assets	(575)	(925)	(2,232)	(925)	(2,232)
Acquisition of investments					(188)
Received dividends and interest on capital	4,144	10,264	1,642		
Net cash used in investing activities	(301,404)	(113,868)	(167,598)	(126,112)	(167,825)
Cash flow of the investing activities					
Capital increase	4,930	9,860	3,740	9,860	3,740
Capital reserve decrease		(372)		(372)	
(Increase)/decrease in deposits	37,048	140,768	(122,402)	145,262	(129,366)
Increase in acceptance and issue of securities	72,401	72,401		72,401	
Increase in funds from the open market	126,182	64,044	60,176	64,044	60,176
(Increase)/decrease in liabilities due borrowings and onlendings	(22,158)	(19,675)	25,927	(19,675)	25,927
Decrease in subordinated debts		(3,645)	(653)	(3,645)	(653)
Dividends paid		(4,000)	(10,500)	(4,000)	(10,500)
Interest paid on capital	(5,800)	(15,425)	(4,400)	(15,425)	(4,400)
Net cash from (used in) financing activities	212,603	243,956	(48,112)	248,450	(55,076)
Net increase/decrease in cash and cash equivalents	2,864	3,545	(362)	3,545	(361)
Cash and cash equivalent at the beginning of the period/year	1,350	669	1,031	672	1,033
Cash and cash equivalent at the end of the period/year	4,214	4,214	669	4,217	672

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 subsidiary companies (CONEF)

Notes to the Financial Statements at December 31, 2009 and 2008 In thousands of reais

1 Operations

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

2 Significant Accounting Practices

The financial statements were prepared in accordance with the accounting practices adopted in Brazil and the rules and regulations established by the Brazilian Central Bank ("Banco Central do Brasil - 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) Net income

It is determined on the accrual basis.

(b) Cash and cash equivalents

These comprise money in cash in domestic and foreign currency, investments 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 subsidiary companies (CONEF)

Notes to the Financial Statements at December 31, 2009 and 2008 In thousands of reais

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

In this year, there were no reclassifications of securities between the categories.

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

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

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

(e) Allowance for doubtful accounts

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

(f) Deferred credits and taxes

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

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Notes to the Financial Statements at December 31, 2009 and 2008 In thousands of reais

(g) Permanent assets

- (i) 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 "Capital reserve - Restatement of equity securities".
- (ii) Property and equipment - stated at cost of acquisition, net of depreciation calculated on the straight-line method, based on the useful lives of assets, being 10% for furniture and fixtures, machinery and equipment and 20% for data processing equipment.
- (iii) Deferred charges - basically comprises improvements to leasehold properties, recorded at cost of acquisition and amortized on the straight-line method, considering the term of the lease. According to the provision of Resolution No. 3,617/08, the financial institutions now exclusively record in Deferred Assets the pre-operating expenses with restructuring which will effectively contribute to the increase of the income for more than one fiscal year and which do not constitute only a reduction of cost or addition in operating efficiency, allowing the permanence of balances existing at September 30, 2008 until their effective write-off.
- (iv) Intangible assets - comprise mainly licenses for the use and the development of software applications. They are amortized on the straight line method and consider an estimated useful life taking into account the future economical benefits that will be generated.

(h) Current and non-current liabilities

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

Banco Modal S.A. and Banco Modal S.A. and subsidiary companies (CONEF)

Notes to the Financial Statements at December 31, 2009 and 2008 In thousands of reais

(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 - ("Contribuição Social sobre o Lucro Líquido - CSLL"), the Social Integration Program ("Programa de Integração Social - PIS") and the Tax for Social Security Financing ("Contribuição para o Financiamento da Seguridade Social - COFINS").

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

(j) Derivative financial instruments

Transactions with derivative financial instruments are recorded as follows:

- Options - the nominal values of option agreements for the purchase of shares, financial assets and commodities, recorded and to exercise, are recorded in memorandum accounts. Premiums received and/or paid when the operations are contracted, are recorded in equity accounts, adjusted to their market quotations, remaining in these accounts up to the effective date for the exercise of the option, when they are written-off as a reduction or increase in the cost of the asset or right, if the option is exercised, or as revenue or expense, in case the option is not exercised.

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- Future market - contracts for transactions of financial assets and commodities in the futures market are recorded in memorandum accounts. These contracts are adjusted daily according to the type of asset and its maturity and the adjustments are recognized monthly in the result.
- Swap - swap contracts are recorded in memorandum accounts at the nominal amounts. The differences payable or receivable are recorded in equity accounts with a corresponding entry to the statement of income and monthly adjusted to its market value.
- Forward transactions - contracts for forward transactions of financial assets and commodities are recorded in memorandum accounts. The adjustments relating to these contracts are calculated daily and recognized in the statement of income, with a corresponding entry to equity accounts and monthly adjusted to its market value.

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

- (i) not to be used as a hedge: recorded in results for the year;
- (ii) to be used as a market risk hedge: recorded in results for the year; 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.

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(I) 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.

3 Financial Statements of the Financial Economic Consolidation - CONEF

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

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

The consolidated financial statements at December 31, 2009 and 2008 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

	Maturity (i)	2009			2008		
		Restated cost	Market	Unrealized gain (loss)	Restated cost	Market	Unrealized gain (loss)
Own portfolio							
Trading securities							
Shares of listed companies		18,700	20,039	1,339			
Securities available for sale							
Quotas of Investment Funds							
In Credit Rights - Quotas Senior		66,074	66,074				
In Credit Rights - Subordinated quotas (ii)		7,783	7,783		13,999	13,999	
Others		10,063	10,063				
Debentures	Up to Dec/09				1,481	2,362	881
National Treasury Bills	Up to Jul/11	26,782	26,743	(39)	21	21	
Financial Treasury Bills	Up to Mar/15	45,308	45,311	3	4,326	4,328	2
National Treasury Notes	Up to Aug/14	73,356	73,438	82	116,473	117,466	993
		<u>229,366</u>	<u>229,412</u>	<u>46</u>	<u>136,300</u>	<u>138,176</u>	<u>1,876</u>
		<u>248,066</u>	<u>249,451</u>	<u>1,385</u>	<u>136,300</u>	<u>138,176</u>	<u>1,876</u>
Subject to repurchase agreement							
Securities available for sale							
National Treasury Bills	Up to Mar/10	33,687	33,686	(1)			
National Treasury Notes	Up to Aug/14	162,226	162,292	66	180,475	182,013	1,538
		<u>195,913</u>	<u>195,978</u>	<u>65</u>	<u>180,475</u>	<u>182,013</u>	<u>1,538</u>
Subject to guarantees							
Securities available for sale							
Debentures	In Apr/13	22,396	22,478	82	20,757	20,757	
National Treasury Bills	Up to Jul/11	73,678	73,477	(201)			
Financial Treasury Bills	Up to Mar/11	10,458	10,457	(1)			
National Treasury Notes	Up to Aug/14	4,471	4,484	13	94,619	95,425	806
		<u>111,003</u>	<u>110,896</u>	<u>(107)</u>	<u>115,376</u>	<u>116,182</u>	<u>806</u>

- (i) For purposes of presentation, the securities available for sale, except debentures, are presented in current assets, independently of their respective maturity.
- (ii) The quotas of the investment funds are represented by subordinated quotas of the "Modal Recebíveis Fundo de Investimento em Direitos Creditórios", constituted as an open condominium without a duration term, administered by the Bank and managed by Modal Asset Management Ltda. Such quotas can support eventual losses resulting from credit rights of the portfolio of the fund. At December 31, 2009, the fund had a portfolio of credit rights amounting to R\$ 20,902 (2008 - R\$ 38,100), with an allowance for possible losses amounting to R\$ 862 (2008 - R\$ 644). The value in subordinated quotas held by the Bank at December 31, 2009 represented 19% (2008 - 28%) of the Fund's stockholders' equity.

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

	<u>2009</u>	<u>2008</u>
At January 1	4,220	1,511
Adjustment in specific stockholders' equity account (Note 13(f))	<u>(4,216)</u>	<u>2,709</u>
At December 31	<u>4</u>	<u>4,220</u>

(b) Derivative financial instruments

	<u>2009</u>			<u>2008</u>		
	Restated value	Market value	Unrealized gain	Restated cost	Market value	Unrealized gain
Asset position						
Premiums on options to be exercised	30,979	22,793	(8,186)	2,311	4,276	1,965
Future purchases receivable				6,309	6,399	90
Future sales receivable	51	52	1	382	335	(47)
Differential on swap transactions (i)	<u>37,127</u>	<u>33,351</u>	<u>(3,776)</u>	<u>54,573</u>	<u>56,294</u>	<u>1,721</u>
	<u>68,157</u>	<u>56,196</u>	<u>(11,961)</u>	<u>63,575</u>	<u>67,304</u>	<u>3,729</u>
Current assets	<u>28,903</u>	<u>21,149</u>		<u>63,444</u>	<u>67,238</u>	
Long-term assets	<u>39,254</u>	<u>35,047</u>		<u>131</u>	<u>66</u>	
Liability position						
Premiums on written options	29,657	22,096	7,561	12,598	18,666	(6,068)
Future purchases payable				88	7	81
Future sales payable				12	43	(31)
Differential on swap transactions	4,361	4,425	(64)	55,645	47,091	8,554
Others	<u>2,415</u>	<u>2,415</u>				
	<u>36,433</u>	<u>28,936</u>	<u>7,497</u>	<u>68,343</u>	<u>65,807</u>	<u>2,536</u>
Current liabilities	<u>30,213</u>	<u>25,490</u>		<u>32,722</u>	<u>37,790</u>	
Long-term liabilities	<u>6,220</u>	<u>3,446</u>		<u>35,621</u>	<u>28,017</u>	

(i) The market value is net of a provision for credit risk amounting to R\$ 2,233 (2008 - R\$ 1,881).

The adjustments to market values of derivative financial instruments, carried out in the year, amounting to R\$ 8,497 (2008 - losses of R\$ 4,255) were recorded in the results for the year "Results on derivative financial instruments".

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

The Bank has not contracted operations with derivative financial instruments accounted for as cash flow hedge and market hedge at December 31, 2008 and 2009.

The operations with these instruments are registered at the Futures and Commodities Exchange ("Bolsa de Mercadoria & Futuros - BM&F"), the CETIP S.A - Organized Counter of Assets and Derivatives ("Balcão Organizado de Ativos e Derivativos") and/or the Brazilian Custody and Settlement Company (Central Brasileira de Liquidação e Custódia - CBLC). For the operations maintained with these institutions at December 31, 2009, margins amounting to R\$ 77,969 (2008 - R\$ 88,039) in guarantee were required and they were represented by public securities.

Commitments assumed due to operations with derivatives recorded in memorandum accounts at December 31, 2009 and 2008 were as follows:

(i) By index

	Custody location	2009		2008	
		Purchased position	Sold position	Purchased position	Sold position
Options market					
Shares					
Purchase options	CBLC	3,800			
Financial assets					
Purchase options	CETIP				61,293
Purchase options	BM&F	11,029,960	11,027,750	242,000	413,062
Put options	BM&F	9,577,300	9,576,706		
Future market					
Interest rate	BM&F	908,690	303,991	21,209	966,749
Currency	BM&F	92,593		170,327	299,666
Stock exchange index	BM&F	19,372			
Exchange coupon	BM&F	251,690	48,548	151,412	58,281
Forward market					
Currency	CETIP	404		28,963	7,628
Swap					
Interest rate	CETIP	287,321	19,197	202,512	79,982
Currency	CETIP	17,693	254,275	137,052	281,232
Interest rate	BM&F	37,456	225,380	672,981	1,193,281
Price indexes	BM&F	221,508	36,200	1,212,952	661,799
Others					
Interest rate	CETIP	2,528			
Stock exchange index	CETIP		4,943		

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(ii) By maturity

	<u>Up to 30 days</u>	<u>From 31 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>After 360 days</u>	<u>2009</u>	<u>Total 2008</u>
Options market							
Shares							
Purchased position	3,800					3,800	
Sold position							
Financial assets							
Purchased position	11,027,750		3,510	3,666,000	5,910,000	20,607,260	242,000
Sold position	11,027,750		3,306	3,663,400	5,910,000	20,604,456	474,355
Future market							
Purchased position	48,754	63,211	51,282	114,959	994,139	1,272,345	342,948
Sold position	58,541	153,884			140,114	352,539	1,324,696
Forward market							
Purchased position		404				404	28,963
Sold position							7,628
Swap							
Asset position	57,207	180,928			325,843	563,978	2,225,497
Liability position	57,257	183,352			294,443	535,052	2,216,294
Others							
Asset position			2,528			2,528	
Liability position			4,943			4,943	

5 Risk Management

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

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(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 National Monetary Council ("Conselho Monetário Nacional - CMN"). This rating considers, among other factors, a periodic analysis of the operation, overdue payments, the client's history and guarantees provided, when applicable.

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The classification of loan operations is as follows:

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

Type of credit	Type of client	Economic activity	Risk level	2009		2008		Allowance percentage according to CMN Resolution No. 2682/99
				Classification of portfolio by risk	Allowance for doubtful accounts	Classification of portfolio by risk	Allowance for doubtful accounts	
Loans and discounted notes:								
	Corporate	Industry	AA	57,287		204		
	Corporate	Services	AA	5,026				
	Individual	Individual	AA			393		
	Corporate	Industry	A	25,452	(127)	13,766	(69)	0.50%
	Corporate	Commerce	A	2,156	(11)	5,733	(29)	0.50%
	Corporate	Services	A	9,456	(47)	25,279	(126)	0.50%
	Individual	Individual	A	400	(2)			0.50%
	Corporate	Industry	B	28,400	(284)	31,732	(317)	1.00%
	Corporate	Commerce	B	5,974	(60)	2,269	(23)	1.00%
	Corporate	Services	B	14,134	(141)	9,046	(90)	1.00%
	Corporate	Industry	C	30,548	(916)	19,829	(595)	3.00%
	Corporate	Commerce	C	2,038	(61)	3,495	(105)	3.00%
	Corporate	Services	C	22,619	(679)	4,692	(141)	3.00%
	Corporate	Services	D			214	(21)	10.00%
	Corporate	Industry	E	3,532	(1,060)			30.00%
	Corporate	Industry	F	2,361	(1,180)			50.00%
	Corporate	Services	F			2	(1)	50.00%
	Corporate	Commerce	G			284	(199)	70.00%
	Corporate	Services	G			338	(236)	70.00%
	Individual	Individual	G	89	(62)			70.00%
	Corporate	Industry	H	125	(125)	2,485	(2,485)	100.00%
	Corporate	Commerce	H			111	(111)	100.00%
	Corporate	Services	H			828	(828)	100.00%
Financing:	Corporate	Industry	B			18,406	(185)	1.00%
	Corporate	Services	H			3,363	(3,363)	100.00%
Advances on exchange contract - ACC (i)								
	Corporate	Industry	B	22,085	(221)			1.00%
	Corporate	Services	B	10,592	(106)	29,793	(298)	1.00%
	Corporate	Services	C			3,701	(111)	3.00%
Advances on exchanges delivered - ACE(i)								
	Corporate	Services	C	287	(8)			3.00%
Onlendings FINAME/BNDES:								
	Corporate	Industry	AA			332		
	Corporate	Industry	B	62	(1)	145	(1)	1.00%
	Individual	Individual	B	77	(1)	247	(2)	1.00%
				<u>242,700</u>	<u>(5,092)</u>	<u>176,687</u>	<u>(9,336)</u>	
Current				<u>162,020</u>	<u>(5,092)</u>	<u>160,916</u>	<u>(9,336)</u>	
Long-term				<u>80,680</u>		<u>15,771</u>		

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

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(b) By maturity

	Overdue(i)				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	Total
	2009							
Loan and discounted notes	1,474	2,528	125		89,881	34,909	80,680	209,597
Onlendings FINAME/BNDES					118	21		139
Advances - ACE					287			287
Advances - ACC					27,165	5,512		32,677
	<u>1,474</u>	<u>2,528</u>	<u>125</u>		<u>117,451</u>	<u>40,442</u>	<u>80,680</u>	<u>242,700</u>
	2008							
	Overdue (i)				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	Total
Loan and discounted notes	19,826	426	934	479	62,523	20,885	15,627	120,700
Financings	3,363				18,406			21,769
Onlendings FINAME/BNDES					347	233	144	724
Advances - ACC					14,773	18,721		33,494
	<u>23,189</u>	<u>426</u>	<u>934</u>	<u>479</u>	<u>96,049</u>	<u>39,839</u>	<u>15,771</u>	<u>176,687</u>

(i) Operations covered, substantially, by guarantees received in the operation contracting or through renegotiation - Note 2(e).

(c) Credit assignment

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

	Operations with material retention of risks and benefits (i)	Operations without material retention of risks and benefits	Result (ii)	
			2009	2008
Book value of credits assigned	324,127	71,686	395,813	592,715
Trading value of credits assigned	<u>324,080</u>	<u>61,092</u>	<u>385,172</u>	<u>587,164</u>
Net loss on credit assignments	<u>(47)</u>	<u>(10,594)</u>	<u>(10,641)</u>	<u>(5,551)</u>

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- (i) During the year, operations with material retention of risks and benefits were granted to "Modal Recebíveis Fundo de Investimento" in Credit Rights. The Bank holds subordinated quotas of "Modal Recebíveis Fundo de Investimento" in Credit Rights (Note 4(a)).
- (ii) The results of the assignments are accounted and stated in Income (Expenses) from Financial Intermediation - credit operations.

(d) Movement in the allowance for doubtful accounts

	<u>2009</u>	<u>2008</u>
At the beginning of the year	9,336	6,461
Constituted/reversed during the year	(254)	9,811
Credits written-off during the year	(4,232)	(7,106)
Recovery of credits during the year	<u>242</u>	<u>170</u>
At the end of the year	<u>5,092</u>	<u>9,336</u>

During the year, operations amounting to R\$ 105,092 (2008 - R\$ R\$ 180,397) were renegotiated.

(e) Connected assets operations

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

	<u>After 360 days</u>	<u>Income/ (expenses)</u>
Connected assets operations		
Credit operations - Working Capital	57,287	2,287
Connected assets obligations		
Mortgage loan bills (see Note 9)	<u>57,024</u>	<u>(2,024)</u>

On December 31, 2009, there was no breach of contract in the connected assets.

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7 Foreign Exchange Portfolio

	<u>2009</u>	<u>2008</u>
Other receivables		
Exchange purchases pending settlement	26.594	39.544
Rights on exchange sale	2.611	
Income receivable from advances (i)	<u>822</u>	<u>845</u>
	<u>30.027</u>	<u>40.389</u>
Other liabilities		
Exchange sales pending settlement	2.611	
Liabilities from exchange purchases	32.142	33.027
Advances on foreign exchange contracts (i)	<u>(32.142)</u>	<u>(32.649)</u>
	<u>2.611</u>	<u>378</u>

(i) Note 6(a).

8 Investments in Subsidiary Companies

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>2009</u>		<u>2008</u>		
	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>	<u>Modal Trading S.A. (i)</u>	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>
Number of shares/quotas held	100	996,998	100	100	996,998
Participation of Banco Modal S.A.	100%	100%	100%	100%	100%
Capital	146	997	2,084	146	997
Stockholders'/Quotaholders' equity	154	997	2,169	154	997
Net income for the year	8	9,762	199	9	5,922
Book value of investments	154	997	2,169	154	997
Equity in the earnings	8	9,762	199	9	5,922

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During the year, subsidiary companies distributed/provided dividends amounting to R\$ 9,770 (2008 - R\$ 6,120).

- (i) During 2009, the capital of the wholly-owned subsidiary Modal Trading S.A. was reduced in R\$ 2,168, and later the participation in this investment was transferred for the value of R\$ 150. The equity accounting results created by this subsidiary company in the year was R\$ 148.

9 Fund Raising

	Maturity range			2009	2008
	Up to 180 days	From 181 to 360 days	After 360 days	Total	Total
Demand deposit	5,421			5,421	8,521
Interfinancial deposits	5,190			5,190	20,424
Time deposits	123,794	3,279	154,687	281,760	122,758
Other deposits	100			100	
Funds obtained in the open market	245,153			245,153	181,109
Funds from acceptance and issue of securities (see Note 6(e))					
Mortgage loan bills	462	874	57,381	58,717	
Agribusiness credit notes	8,559	5,125		13,684	
Total	388,679	9,278	212,068	610,025	332,812

10 Other Liabilities - Subordinated Debts

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

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11 Borrowings and Onlendings

(a) Borrowings

(i) Brazil

Represented by borrowings from BACEN, subject to LIBOR rate plus 1.5% to 2.71% per year with maturities up to May 2010, whose resources were used to disburse Advance on Export Contracts ("Adiantamentos sobre Contratos de Câmbio - ACC) and Advances on Exchange Bills Delivered ("Adiantamento sobre Cambiais Entregues - ACE"). On December 31, the updated value amounted to R\$ 18,117 (2008 - R\$ 16,430).

(ii) Abroad

Represented by borrowings from financial institutions abroad, subject to LIBOR rate plus 1% to 2.75% per year with maturity up to May 2010. On December 31, 2009, the updated value amounted to R\$ 1,747 (2008 - R\$ 22,525).

(b) Onlendings

Domestic

Represented by borrowings from the national Bank for Economic and Social Development ("Banco Nacional de Desenvolvimento Econômico Social - BNDES") and Government Agency for Machinery and Equipment Financing ("Fundo de Financiamento para Aquisição de Máquinas e Equipamentos Industriais - FINAME"), subject to Long-term Interest Rates ("Taxa de Juros de Longo Prazo - TJLP") plus 1.0% to 3.0% per year with maturity up to September 2010. On December 31, 2009, the updated value amounted to R\$ 139 (R\$ 139 in current liabilities) and 2008 - R\$ 723 (R\$ 579 in current and R\$ 144 in long-term liabilities).

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12 Income Tax and Social Contribution

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

	2009		2008	
	Income tax	Social contribution	Income tax	Social contribution
Result before taxation and profit sharing	20,582	20,582	96,827	96,827
Profit sharing	(3,883)	(3,883)	(9,330)	(9,330)
Interest on capital	(11,600)	(11,600)	(8,900)	(8,900)
Adjustment to market value of securities and derivatives	7,177	7,177	4,555	4,555
Equity in the earnings of subsidiaries	(9,918)	(9,918)	(6,130)	(6,130)
Allowance for loan losses	387	387	5,081	5,081
Provision for COFINS with suspend liabilities (Note 15)	4,133	4,133	8,177	8,177
Adjustment of interest operations in the future liquidation market	(12,688)	(12,688)	13,062	13,062
Other permanent additions (exclusions)	456	344	1,559	1,546
Other temporary additions (exclusions)			378	378
Calculation basis	(5,354)	(5,466)	105,279	105,266
Nominal rate	25%	15%	25%	9%
Additional CSLL				6%
Income tax and social contribution			26,285	15,022
Fiscal incentive			(632)	
Income tax and social contribution			25,653	15,022
Constitution (reversal) of deferred tax liability on the adjustment to market value - securities and derivatives	1,794	1,077	(1,139)	(34)
Constitution (reversal) of tax credits on allowance for loan losses and other temporary differences	(764)	(443)	(6,580)	(5,105)
Deferred income tax and social contribution	1,030	634	(7,719)	(5,139)
Income tax and social contribution - Bank	1,030	634	17,934	9,883
Income tax and social contribution - Modal Trading			42	24
Income tax and social contribution - Modal Energy	(2)	(1)	2	1
Income tax and social contribution - Modal Asset	(1,261)	(462)	975	360
Total CONEF	(233)	171	18,953	10,268
		(62)		29,222

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

	<u>2009</u>	<u>2008</u>
Other credits - sundry		
Deferred tax assets		
Adjustment to market value - securities and derivatives	4,743	4,885
Allowance for loan losses	8,458	8,400
Tax loss/tax loss carryforward	2,158	
Interest operations - future market		4,261
Other provisions - COFINS	<u>7,233</u>	<u>5,580</u>
	<u>22,592</u>	<u>23,126</u>
Current	<u>2,450</u>	<u>4,818</u>
Long-term	<u>20,142</u>	<u>18,308</u>
Other liabilities - fiscal and social security		
Deferred tax liabilities		
Adjustment to market value - securities and derivatives	4,379	9,079
Interest operations - future market	<u>814</u>	
	<u>5,193</u>	<u>9,079</u>
Current	<u>2,627</u>	<u>5,997</u>
Long-term	<u>2,566</u>	<u>3,082</u>

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13 Stockholders' Equity

(a) Capital

Capital comprises 19,669 common shares (2008 - 18,721) and 19,669 nominative preferred shares (2008 - 18.721), with no par value.

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, 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 from the profit for the fiscal year 2008 amounting to R\$ 9,000 and R\$ 8,900, respectively.

At the Extraordinary General Meeting held on June 30, 2009, the stockholders approved the capital increase of the Bank by R\$ 4,930, through the issuance of 952 shares, with 476 new common shares and the same number of preferred, with resources from interest on capital, which was confirmed by BACEN on September 15, 2009.

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

At the Extraordinary General Meeting held on December 28, 2009, the stockholders approved the capital increase of the Bank by R\$ 4,930, through the issuance of 944 shares, with 472 new common shares and the same number of preferred, with resources from interest on capital, which is pending confirmation by BACEN.

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

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(b) Share rights

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

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

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

(c) Interest on capital

In the year ended December 31, 2009, 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\$ 11,600, corresponding to R\$ 151.18 per share (2008 - R\$ 8,900; R\$ 237.70 per share), which reduced the income tax and social contribution charge by R\$ 4,640 (2008 - R\$ 3,495).

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 Corporation Law.

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(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>2009</u>	<u>2008</u>
At January 1	2,531	997
Adjustment of securities (Note 4)	(4,216)	2,709
Tax effects	<u>1,687</u>	<u>(1,175)</u>
At December 31	<u>2</u>	<u>2,531</u>

14 Operational Limit (Basel Agreement)

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

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

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

	2009
Regulatory capital - Level I	201,197
Regulatory capital - Level II	<u>54,158</u>
Total regulatory capital - (Level I + Level II) (a)	<u>255,355</u>
Capital allocation	
Credit risk	93,922
Market risk	37,328
Operational risk	<u>12,044</u>
Stockholders' equity required (b)	<u>143,294</u>
Margin (a-b)	<u>112,061</u>
Basel Index	<u>19.6</u>

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15 Contingencies

Contingent liabilities arising from litigations or notifications of the supervising entities are assessed by management with the support of the legal advisors of the Bank, considering the concepts defined in Resolution No. 3,535/08, 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 the federal public administration amounting to R\$18,083 (2008 - R\$ 13,950) 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 2009, the Bank constituted a provision of R\$ 4,133 (2008 - R\$ 8,177), of which R\$ 1,340 (2008 - R\$ 1,433) relates to restatements at the Special System for Settlement and Custody ("Sistema Especial de Liquidação e Custódia - SELIC") rate.

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

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16 Related Parties

The operations between related parties with the Banco Modal S.A. for the years ended December 31, 2009 and 2008 are presented as follows:

	<u>2009</u>	<u>2008</u>
Assets		
Other receivables - sundry	734	268
Derivative financial instruments	33,047	
Liabilities		
Demand deposits	20	18
Time deposits	70,367	59,130
LCA - Agribusiness credit note	5,302	
LCI - Housing loan bills	655	
Derivative financial instruments	3,919	35,846
Subordinated debts (Note 10)	54,157	72,948
Other liabilities - social and statutory	2,000	7,825
Other liabilities - sundry	37	88
Results		
Income from derivative financial instruments	29,325	
Expenses with derivative financial instruments	(2,624)	(35,846)
Funding expenses	(5,114)	(4,128)
Income (expenses) with loans taken abroad	15,146	(20,815)
Income from services rendered	126	126
Expenses with services rendered	(442)	(442)
Losses with credit assignment	(10,532)	
Expenses with interest on capital	(11,600)	(8,900)

(a) Remuneration of the key management personnel

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

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(i) Short-term benefit to managers

	<u>2009</u>
Payroll	2,921
Interest on capital (capitalized)	11,600
Dividends	2,000
Profit sharing and results	640
Social charges	<u>1,181</u>
	<u>18,342</u>

(ii) Other benefits

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

(iii) Shareholding

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

17 Other information

- (a) At December 31, 2009, the account "Other receivables - others" mainly comprised the prepayment of taxes to be offset amounting to R\$ 6,931 (2008 - R\$ 17,404), R\$ 22,592 (2008 - R\$ 23,126) of deferred tax assets as described in Note 12, and R\$ 2,651 (2008 - R\$ 4,235) related to sundry domestic debtors.
- (b) Income from services rendered refers basically to the income from the management and administration of investment funds amounting to R\$ 98 (2008 - R\$ 253), consolidated R\$ 14,623 (2008 - R\$ 10,671), income from guarantees amounting to R\$ 3,477 (2008 - R\$ 3,005) and commissions received for consulting and structured operations for clients amounting to R\$ 6,582 (2008 - R\$ 12,551). The net asset value of the funds managed by CONEF at December 31, 2009 totaled R\$ 3,308,143 (2008 - R\$ 1,050,072).

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- (c) At December 31, 2009, "Other operating income" refers substantially to income from exchange variations, amounting to R\$ 15,146 (2008 - R\$ 4,217), arising from liabilities for securities issued overseas (Note 9) and R\$ 9,066 from loans in foreign currency.
- (d) At December 31, 2009, "Other operating expenses" refers substantially to income from exchange variations, amounting to R\$ 5,023.
- (e) At December 31, 2009, the Bank had co-obligations for guarantees provided amounting to R\$ 343,648 (2008 - R\$ 321,021). Management does not expect losses arising from these operations.

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