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www.pwc.com.br

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

CNPJ 05.389.174/0001-01

Financial statements at

December 31, 2017

and independent auditor's report



Decision on creation of MODAL DTVM

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

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

Taking advantage of our expertise, set up capacity, all the back office structure the bank already had, plus the ability to generate businesses in all areas, we took a decision of creating our own distributor and taking advantage of all this potential.

For 2018, Modal DTVM will keep on investing in state of the art technology, excellent service and a fair cost to its customers. The expectation is to end the year with 380,000 customers, and a wide offer of products of Banco Modal and of third-parties.

DTVM business plan, obtained result and perspectives

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

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

Out total revenue with operations with customers grew more than 700% when compared with the previous year. The volume of customers grew more than 550% in relation to 2016. A characteristic of 2016 and 2017, virtually the first year of operation of DTVM, was the strong investment (according to Notes 16 and 17) in order to prepare the structure to meet the growing demand of customers and the growing and natural demands of state of the art technologies and, therefore, to be able to provide a differentiated, fast and quality service. As a consequence of this investment, we have already had a much higher response than the initially expected and we had projected a 300% growth in the revenues for 2017 when compared to 2016.

Additionally, but not less important from the DTVM's and the group's point of view, we had revenue with broker operations eleven times higher than the expected, volume of funding in fixed income twice higher and in the investment funds, own or of third-parties, 25 times than the expected. This makes us even more sure that we are in the right path for the consolidation of a sustainable and strategic business for the group.

Modal DTVM ended 2017 with more than 88 thousand enabled customers (33 thousand active customers) within fixed and variable income (we project 398 thousand up to the end of 2018), more than R\$1.8 billion under the custody of Bovespa, more than R\$191 million raised in Treasury Direct, more than R\$168 million raised in fixed income, more than R\$73 million raised in funds and more than R\$2.5 billion in AuM.

Retail investment channel - modalmais

Our *modalmais Home Broker* was officially launched on 10/1/2015 and, two years later, the portal had already conquered a prominent position in the Brazilian stock exchange, fixed income and direct treasury market.

Our customers use *modalmais* to carry out its investments in the stock exchange (Bovespa and BM&F Segment), investment funds and fixed income (CDB, LCI, LCA, Treasury and Debentures with Incentive), with investments that amounts to more than R\$2.2 billion. The strong growth arises from an offer of fixed income products with very good profitability with no charge of custody fees or monthly rates, zero rate direct treasury, stock exchange brokerage at a fair price and costs of negotiation platforms with discounts.

In the stock exchange, *modalmais* is extremely competitive, with the best cost-benefit of the market. To invest in shares, options, FIIs and ETFs, custody fee is not charged, and the brokerage fee varies according to the chosen plan from R\$ 0.99 to R\$2.49 for carried order.

For U.S. Dollar and index future contracts, the brokerage varies according to the chosen plan from R\$0.11 to R\$0.16 for mini-contract negotiated and from R\$0.60 to R\$0.80 for full contract negotiated.

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

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

Certifications for the variable income market

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

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



Governance

Modal is one of the country's largest managers of funds with R\$ 22 bi (R\$ 10.6 bi on 12/31/2016) of AuM. It has a well divided basis with expertise in management and administration of differentiated assets.

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

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

Acknowledgement

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

Rio de Janeiro, March 8, 2018

Board of Directors



(A free translation of the original in Portuguese)

Independent auditor's report

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

Opinion

We have audited the accompanying financial statements of Modal Distribuidora de Títulos e Valores Mobiliários Ltda. (the "Institution"), which comprise the balance sheet as at December 31, 2017 and the statements of income, changes in equity and cash flows for the year and six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Modal Distribuidora de Títulos e Valores Mobiliários Ltda. as at December 31, 2017, and its financial performance and cash flows for the year and six-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN).

Basis for opinion

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

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

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

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

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



Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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




Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

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

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

Rio de Janeiro, March 8, 2018


PricewaterhouseCoopers
Audidores Independentes
CRC 2SP000160/O-5


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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Balance sheets at December 31

All amounts in thousands of reais (A free translation of the original in Portuguese)

Assets	Notes	2017	2016	Liabilities and equity	Notes	2017	2016
Non-current assets		188,420	83,058	Current liabilities		167,806	75,647
Available funds	3(c)	601	207	Marketable securities and derivative financial instruments		101	-
Cash		601	207	Derivative financial instruments		101	-
Short-term interbank investments	4	92,031	17,704	Other payables		167,705	75,647
Investments in the open market		-	2,794	Taxes collected		19	10
Interbank investments		92,031	14,910	Social and statutory		952	534
Marketable securities and derivative financial instruments	5	12,107	7,073	Tax and social security contributions	12	2,481	175
Own portfolio		873	93	Negotiation and intermediation of securities	9	161,872	73,122
Underlying guarantees provided		11,133	6,980	Sundry	13	2,381	1,806
Derivative financial instruments		101	-				
Credit operations							
Private sector	7	1,712	980				
Other credits		81,927	56,935				
Negotiation and intermediation of securities	9	73,650	56,824				
Sundry	10	8,277	111				
Other assets	8	42	159				
Long-term receivables		4,002	8,703				
Other credits		4,002	8,703	Equity	14	25,749	16,167
Sundry	10(a)	4,002	8,703	Capital		36,504	29,504
Permanent assets		1,133	53	Market value adjustments - marketable securities and derivatives		-	(1)
Property and equipment in use	11	580	53	Accumulated losses		(10,755)	(13,336)
Intangible assets		553	-				
Total assets		193,555	91,814	Total liabilities and equity		193,555	91,814

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Statements of operations

All amounts in thousands of reais , except profit (loss) per lot of thousand quotas (A free translation of the original in Portuguese)

	Notes	2nd six-month period of 2017	Years ended December 31	
			2017	2016
Revenues from financial intermediation	7			
Credit operations - margin account		324	690	155
Result from transactions with marketable securities		3,249	5,093	2,572
Gross profit from financial intermediation		3,573	5,783	2,727
Other operating income (expenses)				
Service revenue	15	16,458	24,210	2,716
Personnel expenses	16	(4,701)	(6,826)	(2,508)
Other administrative expenses	17	(9,956)	(14,668)	(5,204)
Tax expenses		(1,327)	(1,971)	(321)
Other operating expenses		(758)	(1,185)	(183)
Other operating income		148	200	25
		(136)	(240)	(5,475)
Operating result		3,437	5,543	(2,748)
Result before taxation on profit (loss) and profit sharing		3,437	5,543	(2,748)
Income tax and social contribution				
Provision for current income tax	18	(422)	(783)	-
Provision for current social contribution	18	(363)	(661)	-
Deferred tax assets	3(g)	(311)	(567)	1,311
		(1,096)	(2,010)	1,311
Profit sharing		(952)	(952)	(527)
Profit (loss) for the six-month period/year		1,389	2,581	(1,964)
Profit (loss) per share - R\$ (group of 1,000 shares)		0.04	0.07	(0.07)

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Statements of changes in equity

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Capital realization	Capital increase	Adjustment to market value of securities and derivatives	Accumulated losses	Total
Year ended December 31, 2016					
At January 1, 2016	29,504		-	(11,372)	18,132
Adjustment to market value of securities and derivatives	-		(1)		(1)
Loss for the year	-		-	(1,964)	(1,964)
At December 31, 2016	29,504		(1)	(13,336)	16,167
Changes for the year ended December 31, 2016	-	-	(1)	(1,964)	(1,965)
Six-month period ended December 31, 2017					
At July 1, 2017	29,504	7,000	(2)	(12,144)	24,358
Homologation of capital increase	7,000	(7,000)	-	-	-
Market value adjustments - marketable securities and derivatives	-	-	2	-	2
Net profit for the six-month period	-	-	-	1,389	1,389
At December 31, 2017	36,504	-	-	(10,755)	25,749
Changes in the 2nd six-month period of 2017	7,000	(7,000)	2	1,389	1,391
Year ended December 31, 2017					
At January 1, 2017	29,504	-	(1)	(13,336)	16,167
Capital increase	7,000	-	-	-	7,000
Market value adjustments - marketable securities and derivatives	-	-	1	-	1
Profit for the year	-	-	-	2,581	2,581
At December 31, 2017	36,504	-	-	(10,755)	25,749
Changes for the year ended December 31, 2017	7,000	-	1	2,581	9,582

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Statements of cash flows

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2nd six-month period of 2017	Years ended December 31	
		2017	2016
Operating activities			
Adjusted net income / (loss)	2,430	4,523	(3,275)
Net income/(loss)	1,389	2,581	(1,964)
Adjustments to net profit (loss)	1,041	1,942	(1,311)
Provision for income tax and social contribution	785	1,444	
Deferred income tax and social contribution	311	567	(1,311)
Depreciation and amortization	(55)	(68)	-
Changes in assets and liabilities - operating activities	52,796	69,211	14,702
(Increase) / decrease on credit operations	(1,069)	(732)	(948)
(Increase) / Decrease in other credits	57,607	(22,231)	(44,678)
(Increase) / decrease in other assets	71	117	(159)
Increase / (decrease) in other obligations	(3,813)	92,057	60,487
Cash from operating activities	55,226	73,734	11,427
Investing activities			
(Increase) in securities available for sale	3,244	(4,153)	(664)
(Acquisition)/disposal of property and equipment in use	(375)	(527)	(53)
(Acquisition)/disposal of deferred/intangible assets	(460)	(553)	-
Net cash provided by (used in) investing activities	2,409	(5,233)	(717)
Financing activities			
Capital contribution	-	7,000	-
Net cash provided by financing activities	-	7,000	-
Increase in cash and cash equivalents	57,635	75,501	10,710
Cash and cash equivalents at the beginning of the year and six-month period (Note 4)	35,870	18,004	7,294
Cash and cash equivalents at the end of the year and six-month period	93,505	93,505	18,004
Increase in cash and cash equivalents	57,635	75,501	10,710

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Notes to the financial statements

At December 31, 2017

All amounts in thousands of reais

1. Operations

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

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

The control exchange of Safdié DTVM was approved by BACEN on July 3, 2015, becoming a wholly-owned subsidiary of Banco Modal S.A. (Controller). The new name is Modal Distribuidora de Títulos e Valores Mobiliários S.A. (“Modal DTVM”) and it represents an important distribution and cross-selling channel for the products and services offered by the Bank and by Modal Asset Management Ltda. (“MAM”), through its performance with the institutional customers and through the investment portal “Modal Mais” (modalmais.com.br).

2. Presentation and elaboration of the financial statements

2.1. Preparation basis

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

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

The financial statements of Modal DTVM were concluded and approved by management on March 8, 2018.

2.2. Amendments to the Brazilian accounting standards:

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

- Res. No. 3,566/08 - impairment of assets- (CPC 01)
- Res. No. 3,604/08 - Statement of Cash Flows - (CPC 03)
- Res. No. 3,750/09 - disclosures on related parties - (CPC 05)
- Res. No. 3,823/09 - provisions, contingent assets and liabilities - (CPC 25)
- Res. No. 3,973/11 - events after reporting period - (CPC 24)
- Res. No. 3,989/11 - share-based payment - (CPC 10)
- Res. No. 4,007/11 - accounting policies, changes in accounting estimates and correction of errors
- (CPC 23)
- Res. No. 4,144/12 - conceptual structure for preparation and disclosure of financial statements
(Basic conceptual pronouncement R1), except for the matters that do not conflict with BACEN provisions
- Res. No. 4,424/15 - accounting record and evidence of benefits to employees (CPC 33)
- Res. No. 4,524/16 - effects of the changes in the foreign exchange rates and translation of financial statements

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Notes to the financial statements

At December 31, 2017

All amounts in thousands of reais

- (CPC 02 (R2))
- Res. No. 4,534/16 - intangible assets (CPC 4 (R1))
- Res. No. 4,535/16 - property, plant and equipment (CPC 27).

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

3 Significant accounting practices

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

a) Determination of result

The income and expenses are determined on the accrual basis of accounting, using the “pro rata” day criterion for the financial natured income and expenses.

b) Functional and presentation currency

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

c) Cash and cash equivalents

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

d) Marketable securities and derivative financial instruments

Marketable securities are classified under the terms of BACEN Circular 3,068/01 into the following three categories.

- (i) Trading securities - securities acquired in order to be traded on a frequent and active basis, which are recorded at market value, with a corresponding entry to the statement of income.
- (ii) Securities available for sale - securities not classified in categories (i) and (ii), which are recorded at acquisition cost plus accrued income, with a corresponding entry to the statement of income and valued at market value, with a corresponding entry to a specific equity account; such securities are mostly used in the management of the Bank's cash. Gains and losses on securities available for sale, when realized, are recognized in the statement of income, with corresponding entries in specific equity accounts.
- (iii) Securities held to maturity - securities acquired with the intention to hold them up to maturity, which are evaluated by their intrinsic rate, with a corresponding entry to the statement of income and evaluated regarding the eventual evidence of permanent loss that, if verified, is recorded in the year it occurred.

The marketable securities classified as “trading securities” are being presented as current assets, regardless the maturity.

In the years ended December 31, 2017 and 2016, the securities were not reclassified between the categories..

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Notes to the financial statements

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All amounts in thousands of reais

e) Negotiation and intermediation of securities

These are represented by securities pending settlement within the regulatory deadlines, related to operations of purchase and sale of securities and financial assets agreements carried out in BM&FBovespa, for its own or for third-parties.

f) Credit operations - margin account and allowance for loan losses

Fixed operations determined on a pro-rata day basis up to the financial statements date. The determination of the allowance for loan losses is based on the effective accounting standards and considers the real guarantees obtained, observing the minimum limit of 140% (one hundred and forty percent) in group of shares that comprise the Bovespa index.

g) Permanent assets

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

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

h) Income tax and social contribution

The provision for income tax is established at a rate of 15% of annual taxable income plus, if applicable, an additional rate of 10% on taxable income in excess of R\$ 240. The provision for social contributions is calculated at the rate of 20% on income before tax, adjusted in accordance with current legislation.

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

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

(1) The Law No. 13,169, of 10/6/2015, temporarily increased the Social Contribution rate applicable to financial institutions and related, from 15% to 20% in the period between 9/1/2015 and 12/31/2018. As from 1/1/2019, the rate will be 15% again. As a result of the temporary increase of the social contribution rate, the current taxes were calculated at the 15% rates up to 8/31/2015 and 20% as from September 2015. Modal DTVM recognized the effect of the 5% increase in the rate on the recording of its tax credit, according to the study of tax credits realization, limited to the portion realizable up to December 31, 2018, when the tax rate increase period will end.

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Notes to the financial statements

At December 31, 2017

All amounts in thousands of reais

Due to the control exchange on July 3, 2015 (Note 1), as provided by the effective standard, the tax credits arising from income tax and social contribution losses were accounted for (Resolution 3,059/02 and amendments) and, based on technical study prepared by the Management of Modal DTVM, the expectation of realization of the tax credits considered the results projected to DTVM for next years, using the market assumptions, installed capacity, offered products and the migration to Modal DTVM's platform, of operations already agreed upon with the controller.

i) Contingent assets and liabilities and legal obligations

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

- Contingent assets: these are not recognized in the financial statements, except when there are evidences that offer guarantees of their realization, with no appeals. There are no contingent assets for the year ended December 31, 2017.
- **Contingent liabilities:** these are recognized in the financial statements when, based on the opinion of the legal advisors and of management, the loss of a lawsuit or administrative proceeding is evaluated as probable and whenever the amounts involved can be measured with sufficient reliability. The contingent liabilities classified as possible losses by legal advisors are not recorded and are disclosed in the notes to the financial statements and those classified as remote are neither recognized nor disclosed. There are no contingent liabilities for the year ended December 31, 2017, classified as possible or probable loss;
- Legal obligations: derive from lawsuits or administrative proceedings contesting the legality and constitutionality of some obligations and contributions. These amounts are fully recognized in the financial statements and updated according to the effective law. There are no administrative or legal demands for the year ended December 31, 2017

j) Other current and long-term assets and liabilities

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

4. Cash and cash equivalents

		<u>2017</u>	<u>2016</u>
Available funds		601	207
Short-term interbank investments		<u>92,031</u>	<u>17,704</u>
Investments in the open market	(i)	-	2,794
Interbank investments	(ii)	92,031	14,910
Marketable securities - free		<u>873</u>	<u>93</u>
Financial Treasury Bills	(iii)	873	93
	Total	<u>93,505</u>	<u>18,004</u>
	Short term	93,505	18,004

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- (i) In 2017, there was no outstanding balance in interbank investments in liquidity market, and in 2016, the balance was of R\$ 2,794, backed up by Financial Treasury Bills.
- (ii) The interbank investments in the amount of R\$ 92,031 (2016 - R\$ 14,910) are due to January 2, 2018 and are carried out with Banco Modal S.A. (Note 9).
- (iii) High liquidity securities with low risk of price variation in the secondary market.

5. Marketable securities and derivative financial instruments

(a) Marketable securities

Securities	Maturity range	2017			2016
		Amortized cost	Market adjustment	Carrying amount	Carrying amount
Own portfolio - unrestricted					
Financial Treasury Bills (LFT) - Free	More than 360 days	873	-	873	93
Subject to providing guarantees – BM&F					
Financial Treasury Bills – LFTs	More than 360 days	-	-	-	6,980
Investment fund quotas - FILCB (B3)	More than 360 days	11,133	-	11,133	-
	Total	12,006	-	12,006	7,073

(b) Derivatives

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

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

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

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On December 31, 2017 and 2016, the customers position under custody of Modal DTVM, as well as the amounts of margin deposits and guarantees under the responsibility of DTVM, own and of third-parties, recorded in clearing accounts, were as follows:

Third-parties' portfolio	2017	2016
Bank Certificate of Deposits (CDB)	109,385	1,208,027
Operations with shares	1,814,993	57,565
Housing Credit Bills	41,348	47,402
Agro Credit Bills	17,525	1,680
Quota of investment funds	73,325	25,289
Direct treasury	191,837	106,424
Guarantees for stock operations related to operating limits for operations guarantee - controller (i)	11,133	17,612
Total	2,259,546	1,463,999

(i) Modal DTVM's controller (Banco Modal S.A.) is clearing member and responsible, before the Stock Exchange, for the settlement of DTVM's operations. For this reason, it contracted pledges with big financial institution in the market and deposited in the Stock Exchange as guarantee to meet the following requirements:

- Settlement and Guarantees Fund in the amount of R\$ 8,435 (2016 - R\$ 6,000)
- Non-operating minimum guarantees in the amount of R\$ 8,570 (2016 - R\$ 6,000)

On December 31, 2017, these pledges and guarantees are recorded in the controller's clearing accounts.

6. Risks management

The management of these risks is carried out through controls that allow the daily monitoring of operations, regarding the guidelines and the limits established by Modal DTVM management.

- (i) **Market risk management:** related to the fluctuation of prices and rates, i.e., to the variations of interest rates markets within the country, which reflect in the price of the assets and liabilities traded in the markets. In accordance with CMN Resolution No. 3,464/07, a structure to manage market and its operations risks was implemented in Modal DTVM, duly approved by the board of directors;
- (ii) **Operating risk management:** in accordance with CMN Resolution No. 3,380/06, a structure specific for operating risks management was implemented in Modal DTVM, duly approved by the board of directors;
- (iii) **Credit risk management:** possibility to occur losses to Modal DTVM, whether they are associated or not to the compliance, by the financial operation counterparty, with its obligations in the agreed upon terms. In accordance with CMN Resolution No. 3,721/09, a credit risk management structure was implemented in Modal DTVM, duly approved by the board of directors;
- (iv) **Liquidity risk management:** related to the mismatching of financial flows of assets and liabilities, reflected in the Modal DTVM's financial capacity to obtain funds to pay its obligations;
- (v) **Financial instruments:** Modal DTVM maintains operating and financing policies and strategies aiming liquidity, security and profitability of its assets. This way, it has procedures to control and monitor the transactions and balances of its financial instruments, in order to monitor the risks and the effective rates in relation to those practiced in the market.
- (vi) On December 31, 2017, management of Modal DTVM considered as acceptable the exposition to risks.

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7. Credit operations - private sector

These operations correspond to margin account operations carried out as financing for the acquisition of shares, in the amount of R\$ 1,712 (2016 - R\$ 980). The operations' guarantees are financial assets under the custody of Modal DTVM, with market values higher than at least 140% of the granted credit, in shares group provided by the rules of B3.

8. Other assets

In December 2017, R\$ 42 (2016 - R\$ 159) refer substantially to the prepaid expenses on the acquisition of temporary license for the use of system, which will be amortized during the effectiveness term of the contract.

9. Negotiation and intermediation of securities

On December 31, 2017, the assets and liabilities balances refer to transactions carried out by customers in the stock, commodities and futures exchange, whose financial settlement will occur in the following month. These are as follows:

	2017		2016	
	Asset position	Liability position	Asset position	Liability position
Amounts to settle - Customer	32,016	41,634	23,575	33,251
Amounts to settle - Stock Exchange	41,634	31,922	33,249	23,561
Customer's current account (i)	-	88,316	-	16,310
Total	73,650	161,872	56,824	73,122

(i) The amount of R\$ 88,316 (2016 - R\$ 16,310) refers to the investors' funds available for future trade that are held in short-term interbank investments. The funds are invested until these investors order the negotiations or they are used as coverage of margin calls (Note 4).

10. Other credits - sundry

	2017	2016
Tax credits (b)	8,135	8,703
Administration fee	3,189	-
Taxes and contributions to offset	744	3
Advances and prepayment of salaries	55	12
Amounts receivable from related party (Note 21)	118	6
Debtors by guarantee deposits (a)	12	12
Others	26	78
Total general	12,279	8,814
Short term	8,277	111
Long term	4,002	8,703

(a) The item "Debtors for guarantee deposits" refers to judicial deposit for appeal against decision of social security payment, according to Note 19.

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

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Tax realization year	Tax losses/ Negative basis
2018	2,357
2019	5,453
2020	325
Total general	8,135
Present value (i)	7,148

- (i) For the calculation of present value the DI x Fixed rate disclosed by BM&F Bovespa was used.
- (ii) During the year ended December 31, 2017, tax credit in the amount of R\$ 566 was realized (Note 18).

11. Permanent assets

On December 31, 2017, R\$ 580 (2016 - 53) refer to property and equipment in use and R\$ 553 to intangible assets for the acquisition of computer software, amortized on a straight-line basis, according to Note 3(g).

12. Tax and social security obligations

	2017	2016
Taxes and contributions on income	1,444	-
Taxes and contributions on third-parties services	65	16
Taxes and contributions on salaries	374	104
Other tax obligations (mainly PIS/COFINS)	598	55
Total	2,481	175

13. Other liabilities - sundry

	2017	2016
Provision for vacation, salaries, fees and charges	573	58
Provision for administrative expenses	37	274
Property and equipment payable	-	37
Provision for miles program (ii)	104	-
Amounts payable to related party (i)	1,655	1,425
Other payables	12	12
Total	2,381	1,806

- (i) This refers to payables to the controller due to cost apportionment agreement (Note 21(i)), whose settlement often occurs in six-month periods;
- (ii) This refers to the “Mais milhas” Program, whose objective is to grant points to the customer that invests in fixed and post-fixed Bank Certificate of Deposits (CDB) and “Ganho Mensal” intermediated by Modal through its home broker. On December 31, 2017, the program account with more than 900 customers, amounting 2,082,500 points to be redeemed.

14. Equity

Share capital

On December 31, 2017, the share capital is represented by 36,503,500 quotas (2016 - 29,503,500 quotas) with par value of R\$ 1.00, subscribed and paid up, in the amount of R\$ 36,504.

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

Profit sharing

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

15. Service revenue

	<u>2017</u>	<u>2016</u>
Brokerage	13,874	2,511
Administration fee	5,297	-
Negotiation platform	2,683	59
Accounts plan fee/IR calculator	1,901	90
Fund distribution/Commission of intermediation of BTC	370	40
Other revenue for provision of service	85	16
Total	<u>24,210</u>	<u>2,716</u>

16. Personnel expenses

	<u>2017</u>	<u>2016</u>
Salaries	4,510	1,710
Social charges	1,201	496
Benefits	1,106	290
Training	9	12
Total	<u>6,826</u>	<u>2,508</u>

17. Other administrative expenses

	<u>2017</u>	<u>2016</u>
Data processing	3,711	1,003
Third-parties services	2,208	889
Specialized technical services (i)	1,902	209
Publicity and representations	2,539	1,204
Rental and condominium fees	1,206	562
Financial system services	1,837	798
Communication	385	231
Other expenses	880	308
Total	<u>14,668</u>	<u>5,204</u>

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

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18. Income tax and social contribution

	Income tax		Social contribution	
	2017	2016	2017	2016
Result before taxation and statutory profit sharing	5,543	(2,748)	5,543	(2,748)
Profit sharing	(952)	(527)	(952)	(527)
Other permanent additions (exclusions)	131	(4)	132	2
Calculation basis before the income tax and social contribution losses (30%)	4,722	(3,279)	4,723	(3,273)
(-) Offset of income tax and social contribution losses	(1,417)	-	(1,417)	-
Adjusted calculation basis	3,305	-	3,306	-
Nominal rates (15% + additional 10%)	25%	25%	15%	20%
Additional Social Contribution- 5%				
(i)	-	-	5%	-
Income tax and social contribution	802	-	661	-
Tax incentive	(19)	-	-	-
Net income tax and social contribution	783	-	661	-
Provision (reversal) of tax credits on tax losses, negative basis and other temporary differences (Note 9 (b))	(354)	820	(213)	491

(i) As described in Note 3(g), the Social Contribution was increased from 15% to 20% up to 2018. Thus, the social contribution tax credit, shown in Note 10 (b), considered the currently effective rates in the periods expected for their realization.

19. Contingencies

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

For the lawsuits whose evaluation of loss is considered possible, no accounting provision is recognized, however, they are disclosed in a note. In the case when the chances of loss are considered remote, no provision is recognized and no disclosure is made in a note.

On June 30, 2016, there was a labor lawsuit with judicial agreement homologated in court and already settled between the parties. Given the contradiction in the verdict, which homologated the moral damages (indemnity installment) and determined the payment of social security quota, which is not applied according to existent jurisprudence, we filed a motion for clarification. Our legal advisors understand that it is probable the risk of dismissal of the appeal filed by Modal DTVM, in order to oppose the payment of social security as described above, even if there is a trend in the jurisprudence of the High Court of Labor in favor of the exemption of payment when it is for moral damages. With any final outcome, the amount will be reimbursed by the seller of Safdié DTVM (previous name), according to provisions of the agreement of purchase and sale of quota on August 15, 2014, reason why no provision was constituted for the mentioned lawsuit.

20. Operating limits

The financial institutions and similar entities have to maintain minimum equity of 9.25% of their assets, weighted by grades of risk to expositions in gold, foreign exchange and operations subject to the operating risk and to the variations in: foreign exchange, interest rate, price of commodities and price of shares classified as held in portfolio for trade, according to BACEN's rules and instructions.

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The financial conglomerate, of which Modal DTVM is part, was framed within the limits on December 31, 2017, presenting Basel index of 13%.

21. Related parties

(i) Operations with the controllers

Modal DTVM operated with the controller through interbank deposits, in the amount of R\$ 92,031 (2016 - R\$ 14,910), giving rise to a result of R\$ 3,630 (2016 - R\$ 1,116) and through committed operations that gave rise to a result of R\$ R\$ 292 (2016 - R\$ 149) in the year ended December 31, 2017.

Modal DTVM entered into a cost apportionment agreement with the controllers because the same facilities are used. On December 31, 2017, the net payable was R\$ 1,655 (2016 - R\$ 1,425) (Note 13).

In 2017, “Receivables from related parties” presents a balance of R\$ 118 (2016 - R\$ 6) (Note 10).

(ii) Key management remuneration

Total key management remuneration for the year ended December 31, 2017 was R\$ 140 (2016 - R\$ 369) of fixed remuneration, classified as short-term benefit.

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

Variable remuneration program – *Phantom Stock Option*

Modal DTVM, as from 2017, instituted a Share Option Program of the controller Banco Modal and other companies of the Prudential Consolidated, as described in Note 1 to the Parent Company financial statements of Banco Modal, in order to (i) encourage more integration of those associated to Grupo Modal, (ii) generate long term benefits to the associated, (iii) hold those associated who are considered strategic to the institution, and (iv) allow more upside in the case of equity valuation of the shares of Grupo Modal (“2017 Options Program”).

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

The 2017 Program granted options that amounted 0.10% that, invested on the variation of the equity forecast for December 31, 2021 and the plan’s reference equity for December 31, 2016, would give rise to a granting exercise amount of R\$ 28 which, brought to present value by the DixPré rate of BM&F (252 base), totals R\$19 (R\$10 net of tax effects) which will be provided for in long-term liabilities in the statements of operations for the future periods, as long as the vesting period is complied with, as provided by the 2017 Program, which ends on December 31, 2021.

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