

(A free translation of the original in Portuguese)

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

CNPJ nº 05.389.174/0001-01

Financial statements at

December 31, 2019

and independent auditor's report





(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Quotaholders
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, 2019 and the statements of operations, 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, 2019, 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 30, 2020

PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

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



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

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

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

Modal has the experience that is necessary to overcome any economic scenario. One of the engines to overcome obstacles is the total integration between the many areas of Modal Group. 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 for 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 Distribution, Investments Banking, Products, Merchant Banking, Infrastructure, Sales&Trading, Asset Management and Private Equity.

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

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

For 2020, modalmais will keep on investing in state-of-the-art technology, excellent service and fair price to its customers. The expectation is to close the year with more than 500,000 active customers and a wide range of modalmais own products, as well as third-parties' products duly selected by experts with expertise in the market.

DTVM business plan, obtained result and perspectives

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

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

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

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

Our total revenue with customers operations grew almost 130% when compared with the previous year. The volume of active customers also grew more than 75% in relation to 2018, growing from 120 thousand to 210 thousand customers. Besides, we also had an expressive growth in concluded registrations, increasing from 346 thousand to 720 thousand, almost a 110% growth. Since the beginning, there was a strong investment (according to Notes 16 and 17) in order to prepare the structure to meet the growing demand of customers and the massive need for state of the art technologies and, therefore, to be able to provide a differentiated, fast and quality service. As consequence of this movement, we had a much higher feedback than we initially expected. Today the progress of these numbers continues to evolve constantly, with current revenue around R\$ 148 million (2018 - R\$ 65 million), only with brokerage operations and excluding the result of financial intermediation which, even with the fall in the basic rate, maintained at the level of R\$ 93 million per year (2018 - R\$ 41 million).

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

The modalmais ended 2019 with more than 720 thousand qualified customers and 210 thousand active customers, between fixed income and variable income (we project more than 1 million qualified customers until the end of 2020), more than R\$ 3 billion under Bovespa custody, more than R\$ 800 million (2018 - R\$ 478 million) raised in Direct Treasury, more than R\$ 845 million (2018 - R\$ 692 million) raised in private fixed income, more than R\$ 439 million (2018 - R\$ 198 million) raised in funds, in addition to floating that reached R\$ 402 million in December 2019, in addition to the Structured Operations Certificates ("COE"), which is the most recent product offered by the platform at the end of 2019, which has already reached almost R\$ 26 million.

All of this can be confirmed by the volume of Asset Under Management ("AuM"), which reached the historical value of R\$ 6.9 billion (2018 - R\$ 4.6 billion), an increase of almost 35%. With only a short time of existence, we are already the 5th broker in the BM&F ranking, with an average volume in the last 3 full months of 2019 of 39,474,149 contracts and we are the 26th in B3 with an average volume of R\$ 5.2 billion.

Retail investment channel - modalmais

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

Our customers use modalmais to carry out its investments in the stock exchange (Bovespa and BM&F Segment), investment funds and fixed income (CDB, LCI, LCA, Treasury and Debentures with Incentive), with investments that amounts to more than R\$ 6.2 billion (2018 - R\$ 4.6 billion). The strong growth observed in the last years 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 progressive 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 and COE, custody fee is not charged, and the brokerage fee varies according to the chosen plan from R\$ 0 (zero) to R\$2.49 for carried order.

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

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

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

Within the strategy of being the investor's digital bank and effectively participating in the training of new investors in the Brazilian market, we created the company Modalmais Treinamento e Desenvolvimento Profissional ("Modalmais Treinamento"), a wholly owned subsidiary of Modal DTVM, which was born as a success story. In the wake of the best stock portfolio in Brazil in 2019, according to Valor Econômico magazine, with profitability of more than 93% in 2019 (being the second and third brokerage firms with percentages of 62% and 47%, respectively - see link below), we developed the courses "The secrets of the Best Portfolio in Brazil by Leandro Martins" and "Trader's Challenge", in addition to the live rooms daily available to our customers through the platform and Youtube, much of it free of charge, in addition to the daily newsletters in the morning com "Bom dia, Investidor" and early evening with "Boa Noite, Investidor", with our chief economist and columnist for Globo News and Band News FM, Álvaro Bandeira. Since the beginning of the operation that took place at the end of the second half of 2019, almost 3,370 courses have been sold, with revenues of more than R\$ 6 million. In addition to promoting the dissemination of knowledge, with quality, up-to-date information and with responsibility and fair price to thousands of investors and potentials in the Brazilian market, we have built a profitable and sustainable business. In a first foray into this training market at the end of 2018/early 2019, still with a partner, we have already had success with a Long & Short course with almost 900 courses sold and a revenue of more than R\$ 2 million, just the part that fell to Modalmais.

<https://valorinveste.globo.com/mercados/renda-variavel/bolsas-indices/noticia/2020/01/10/campeas-da-carreira-valor-falam-de-estrategia-e-apontam-melhores-aco-es-para-2020.ghtml>

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 technological and organization structure to provide business services for institutional investors in the BM&FBOVESPA business environments. In addition to this important seal, we also obtained three other seals that qualify us as one of the main brokers for institutional customers in the market.

The certifications states the quality of the services rendered to individuals and non-financial corporates.



Governance

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 framework is complemented by 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 27, 2020

Board of Directors



Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Balance sheets at December 31

All amounts in thousands of reais

Assets	Notes	2019	2018	Liabilities and equity	Notes	2019	2018
Current assets		302,649	296,717	Current liabilities		287,925	276,255
Available funds	4	1,585	4,923	Other payables		287,925	276,255
Cash		1,585	4,923	Taxes collected		9	13
Short-term interbank investments	4	168,000	165,041	Social and statutory		6,269	2,622
Interbank investments		168,000	165,041	Tax and social security contributions	12	10,984	6,128
Marketable securities and derivative financial instruments	5	12,902	11,902	Negotiation and intermediation of securities	9	259,296	264,482
Own portfolio		349	65	Sundry	13	11,367	3,010
Underlying guarantees provided		12,546	11,837	Long-term liabilities		567	220
Derivative financial instruments		7	-	Other payables		567	220
Credit operations				Sundry	13	567	220
Financing of margin account	7	-	2,032	Equity	14	54,701	37,590
Other credits		117,758	114,595	Share capital		41,504	41,504
Negotiation and intermediation of securities	9	99,166	101,963	Revenue reserves		13,197	-
Sundry	10	18,592	12,632	Accumulated losses		-	(3,914)
Other assets	8	2,404	2,337				
Prepaid expenses		2,404	2,337				
Long-term receivables		6,849	5,131				
Marketable securities and derivative financial instruments	5	5,285	1,018				
Own portfolio		1,142	1,018				
Underlying guarantees provided		4,143	-				
Other credits		1,506	4,113				
Sundry	10(a)	1,506	4,113				
Other assets	8	58	-				
Prepaid expenses		58	-				
Permanent assets	11	33,696	8,104				
Investment		2,356	-				
Property and equipment in use		7,024	2,034				
Intangible assets		24,316	6,070				
Total assets		343,193	314,065	Total liabilities and equity		343,193	314,065

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Statements of operations

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

	Notes	2nd six-month period of 2019	Years ended December 31	
			2019	2018
Revenues from financial intermediation				
Credit operations - margin account	7	265	796	1,050
Result from transactions with marketable securities		6,683	16,137	17,176
Result from derivative financial instruments		7	7	-
		6,955	16,940	18,226
Gross profit from financial intermediation				
Other operating income (expenses)				
Service revenue	15	86,390	148,100	65,236
Personnel expenses	16	(17,160)	(30,450)	(16,348)
Other administrative expenses	17	(49,054)	(83,139)	(42,962)
Tax expenses	19	(6,475)	(11,579)	(5,433)
Equity in results of investees	11 (b)	2,346	2,346	-
Other operating expenses	21	(4,967)	(7,347)	(3,969)
Other operating income		309	461	213
		11,389	18,392	(3,263)
Operating result		18,344	35,332	14,963
Result before taxation on and profit sharing		18,344	35,332	14,963
Income tax and social contribution				
Provision for current income tax	18	(1,716)	(4,466)	(2,103)
Provision for current social contribution	18	(1,150)	(2,808)	(1,745)
Deferred tax assets	3(i)	(342)	(2,236)	(1,445)
		(3,208)	(9,510)	(5,293)
Profit sharing		(6,381)	(6,381)	(2,829)
Profit for the six-month period/year		8,755	19,441	6,841
Net income per share - R\$ (group of 1,000 quotas)		210.94	468.42	164.83

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

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Statement of changes in equity

All amounts in thousands of reais

	Share capital	Revenue reserves		Retained earnings/ (accumulated losses)	Total
		Legal	Profit to distribute		
Year ended December 31, 2018					
At January 1, 2018	36,504	-	-	(10,755)	25,749
Capital increase	5,000	-	-	-	5,000
Profit for the year	-	-	-	6,841	6,841
At December 31, 2018	41,504	-	-	(3,914)	37,590
Changes in the year ended December 31, 2018	5,000	-	-	6,841	11,841
Six-month period ended December 31, 2019					
At July 1, 2019	41,504	534	5,038	-	47,076
Net profit for the six-month period	-	-	-	8,755	8,755
Constitution of reserves	-	438	7,187	(7,625)	-
Interest on capital(R\$ 27.23 per quota)	-	-	-	(1,130)	(1,130)
At December 31, 2019	41,504	972	12,225	-	54,701
Changes in the 2nd six-month period of 2019	-	438	7,187	-	7,625
Year ended December 31, 2019					
At January 1, 2019	41,504	-	-	(3,914)	37,590
Profit for the year	-	-	-	19,441	20,679
Constitution of reserves	-	972	12,225	(13,197)	-
Interest on capital(R\$ 56.14 per quota)	-	-	-	(2,330)	(2,330)
At December 31, 2019	41,504	972	12,225	-	54,701
Changes in the year ended December 31, 2019	-	972	12,225	3,914	17,111

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

	**	Years ended December 31	
		2019	2018
Operating activities			
Net profit for the year/six-month period	8,755	19,441	6,841
Adjustments to net profit	8,043	10,558	4,906
Deferred income tax and social contribution	342	2,236	1,445
Depreciation and amortization	1,129	1,508	412
Profit sharing	6,381	6,381	2,829
Equity in results of investees	(2,346)	(2,346)	-
Provision for contingency	117	117	-
Allowance for doubtful accounts	2,320	2,320	-
Provision for Phantom Stock Options	107	349	220
Adjustment to market value	(7)	(7)	-
Changes in assets and liabilities - operating activities	16,282	1,965	68,883
(Increase) / Decrease in credit operations	1,559	2,032	(320)
Increase in other credits	(28,709)	3,183	(38,072)
(Increase) / Decrease in other assets	241	(125)	(2,295)
Increase / (decrease) in other obligations	48,563	2,850	107,165
Income tax and social contribution paid	(5,372)	(5,975)	2,405
Cash from operating activities	33,080	31,964	80,630
Investing activities			
Increase in securities available for sale	(5,747)	(5,259)	(914)
Acquisition of property and equipment in use	(2,073)	(5,954)	(1,807)
Acquisition of intangible assets	(11,877)	(18,790)	(5,577)
Acquisition of investment	(10)	(10)	-
Net cash used in investing activities	(19,708)	(30,013)	(8,298)
Financing activities			
Capital contribution	-	-	5,000
Interest on capital paid	(1,130)	(2,330)	-
Net cash provided by (used in) financing activities	(1,130)	(2,330)	5,000
Increase/(decrease) in cash and cash equivalents	12,243	(379)	77,332
Cash and cash equivalents at the beginning of the year and six-month period (Note 4) (i)	157,342	169,964	92,632
Cash and cash equivalents at the end of the year and six-month period	169,585	169,585	169,964
Increase/(decrease) in cash and cash equivalents	12,243	(379)	77,332

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, 2019

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.

Modal Distribuidora de Títulos e Valores Mobiliários Ltda., subsidiary of Banco Modal S.A. (“parent company”), represents an important distribution and cross-selling channel for the products and services offered by the parent company and by Novus Capital Gestora de Recursos Ltda. (“Associate”), besides new products of other banks (funds, CDB, LCI, LCA, etc.), duly approved in the due diligence internal process, through its performance with the institutional customers and through its investment portal “Modal Mais” (modalmais.com.br).

2. Presentation and elaboration of the financial statements

2.1. Preparation basis

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

In preparing the financial statements, estimates and assumptions were utilized to determine the amounts of certain assets, liabilities, income and expenses, in accordance with accounting practices effective in Brazil. These estimates and assumptions were considered in the measurement of the provisions for loss with credit operations and other credits, provision for contingencies, realization of tax credits and 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 27, 2020.

2.2. Amendments to the Brazilian accounting practices

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

- Res. No. 3,566/08 - impairment of assets (CPC 01 - R1)
- Res. No. 3,604/08 - statement of Cash Flows (CPC 03 - R2)
- Res. No. 3,750/09 - disclosures on related parties (CPC 05 - R1)
- Res. No. 3,823/09 - provisions, contingent assets and liabilities - (CPC 25)
- Res. No. 3,973/11 - events after reporting period - (CPC 24)
- Res. No. 3,989/11 - share-based payment (CPC 10 - R1)
- Res. No. 4,007/11 - accounting policies, changes in accounting estimates and correction of errors - (CPC 23)
- Res. No. 4,144/12 - conceptual structure for preparation and disclosure of financial statements (Basic conceptual pronouncement R1), except for the matters that do not conflict with BACEN provisions
- Res. No. 4,424/15 - accounting record and evidence of benefits to employees (CPC 33 (R1))
- Res. No. 4,524/16 - effects of the changes in the foreign exchange rates and translation of financial statements (CPC 02 (R2))
- Res. No. 4,534/16 - intangible assets (CPC 4 (R1))
- Res. No. 4,535/16 - property, plant and equipment (CPC 27).

Modal Distribuidora de Títulos e Valores Mobiliários Ltda.

Notes to the financial statements

At December 31, 2019

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- Res. No. 4,748/19 Measure at Fair Value (CPC 46) – in force as from January 1, 2020.

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

3. Significant accounting practices

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

a) Determination of result

Revenue and income are accounted for on an accrual basis.

b) Functional and presentation currency

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

c) Cash and cash equivalents

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

d) Marketable securities and derivative financial instruments

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

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

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

In the years ended December 31, 2019 and 2018, the securities were not reclassified between the categories, as provided by Circular Letter No. 3,068/01.

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e) Derivative financial instruments

Transactions with derivative financial instruments are recorded as follows:

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

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

- (i)** Not to be used as a hedge - recorded in the Statement of Income.
- (ii)** Market risk hedge – the financial assets and liabilities object of hedge, including the assets classified as available for sale and their tax effects, and the respective derivative financial instruments related are accounted for at market value, with the corresponding gains and losses recognized in the Statement of Income for the period; and
- (iii)** Cash flow hedge - the financial assets and liabilities object of hedge and the respective derivative financial instruments related are accounted for by market value, with the corresponding gains and losses, less the tax effects, recognized in equity account under “Equity Adjustment”. The ineffective portion of hedge is recognized directly in the statement of operations for the period.

The derivative financial instruments that arose from customers’ requirement or on its own, characterized as hedge but that do not meet the criteria of accounting hedge established by the BACEN’s standards, mainly derivatives used to manage the risk global exposure, are accounted for by the market value, with the gains and losses recognized directly in the statement of operations for the period.

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

f) Negotiation and intermediation of securities

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

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

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

h) Permanent assets

(i) **Investments** - investments in subsidiaries are accounted for by the equity method.

(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) **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.

i) Income tax and social contribution

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

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

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

(i) The Law No. 13,169, of 10/6/2015, temporarily increased the Social Contribution rate applicable to financial institutions and related, from 15% to 20% in the period between 9/1/2015 and 12/31/2018. As from 1/1/2019, the rate is back to 15%.

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.

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The tax credits arising from tax losses and negative basis were accounted for (Resolution 3,059/02 and amendments), based on technical study prepared and approved by the management of Modal DTVM, the expectation of realization of these tax credits considered the results projected for the next years, using market assumptions, installed capacity, diversification of the offered products, administration of the structured funds and the historical and projected growth of the customers portfolio and volume of operations.

j) **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:

- (i) **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, 2019.
- (ii) **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;
- (iii) **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, 2019.

k) **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.

l) **Variable remuneration program – Phantom Stock Option**

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

Under the terms of BACEN Resolution No. 3,989, the fair value on the granting date of share-based payment agreements granted to employees is recognized as an expense, with a corresponding increase in liabilities, during the period in which employees acquire the right to the benefit. For this calculation, the granting percentage on the difference between the Shareholders' Equity projected up to the expiration of the option and the Shareholders' Equity discounted to present value. This amount is adjusted by estimating the probability of voluntary dismissals (non-exercisable options).

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m) Provision of the advantage program “Mais Milhas”

The program “Mais Milhas” is a loyalty program offered to the investors, which allows the accumulation of points from investment in post-fixed and fixed Bank Certificate of Deposits (CDB) of Banco Modal S.A. And “Monthly Gain”. The accumulated points may be used, upon redemption request, for discounts and/or benefits in the acquisition of products and services offered by the partners. The provision of R\$ 12 on December 31, 2019 (2018 - R\$ 78) is constituted from the adhesion of the customer to the program with a counter-entry in the account “Other administrative expenses”.

4. Cash and cash equivalents

	<u>2019</u>	<u>2018</u>
Available funds	1,585	4,923
Short-term interbank investments - interbank deposit (i)	<u>168,000</u>	<u>165,041</u>
Total	<u>169,585</u>	<u>169,964</u>

(i) The interbank investments in the amount of R\$ 168,000 (2018 - R\$ 165,041) are due to January 2, 2020 and are carried out with the parent company Banco Modal S.A. (Note 23).

5. Marketable securities and derivative financial instruments

(a) Marketable securities

<u>Securities</u>	<u>Maturity range</u>	<u>Amortized costs</u>	<u>Fair value adjustment</u>	<u>2019 Carrying amount</u>	<u>2018 Carrying amount</u>
Own portfolio					
Trading securities					
Bank Deposits Certificates	Up to May 2021	133	1	134	60
Bill of exchange	Up to November 2024	25	(1)	24	5
Agribusiness Credit Bills	Up to June 2020	30	(1)	29	-
Housing Credit Bills	Up to May 2021	51	-	51	-
Structured Operations Certificate	Up to December 2023	110	-	110	-
Total securities for trade		<u>349</u>	<u>(1)</u>	<u>348</u>	<u>65</u>
Available-for-sale securities					
Financial Treasury Bills	Up to March 2023	1,142	-	1,142	1,018
Total securities available-for-sale		<u>1,142</u>	<u>-</u>	<u>1,142</u>	<u>1,018</u>
Total own portfolio					
		<u>1,491</u>	<u>(1)</u>	<u>1,490</u>	<u>1,083</u>
Subject to providing guarantees – BM&F					
Trading securities					
Quotas of investment funds (i)	No maturity	12,546	-	12,546	11,837
Available-for-sale securities					
Financial Treasury Bills	Up to September 2023	4,143	-	4,143	-
Total vinculados a prestação de garantias					
		<u>16,689</u>	<u>-</u>	<u>16,689</u>	<u>11,837</u>
Total general					
		<u>18,180</u>	<u>(1)</u>	<u>18,179</u>	<u>12,920</u>

(i) Multimarket fund (Fundo de Investimento Liquidez Câmara BM&FBovespa Multimercado – CNPJ 28.671.705/0001-50) created by B3 to carry out margin deposits through the acquisition of quotas. The fund’s portfolio is substantially composed of government securities and repurchase agreements.

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(b) Derivatives

Asset position	2019		
	<u>Updated cost</u>	<u>Market value</u>	<u>Unrealized result</u>
Structured Operations Certificate - Nominal Value at Risk (i)	-	7	7
Total	-	7	7

(i) – Pursuant to Bacen Resolution No. 3,623/13, the nominal value at risk of certificates of structured transactions is accounted for apart from the nominal value protected, under the heading of Derivative Financial Instruments. The premium paid on the transaction is accounted for under Securities for trading, Note 5 (a).

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

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

On December 31, 2019 and 2018, the customers position under custody of Modal DTVM, as well as the amounts of margin deposits and guarantees under the responsibility of DTVM, own and of third-parties, were as follows:

Third-parties' portfolio - Unaudited	2019	2018
Operations with shares	4,389,947	2,965,964
Direct treasury	802,723	477,723
Bank Deposits Certificates	507,104	333,214
Quota of investment funds	465,266	210,344
Housing Credit Bills	87,923	139,520
Agro Credit Bills	98,281	62,141
Bill of exchange	72,093	56,937
Structured Operations Certificate	25,789	18,256
Financial Treasury Bills	13,769	16,458
Debentures	16,032	13,722
Financial bills	7,031	8,050
National treasury note	4,392	4,266
Agribusiness receivables certificates	4,357	4,224
Real Estate Receivables Certificates	3,480	2,781
Bank credit certificate	5,616	-
Promissory Note	-	806
Total	6,503,803	4,314,406

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

In the course of its activities, DTVM needs to deposit guarantee margin in B3. In the year ended December 31, 2019, the amount deposited by the parent company to supply this need, was of R\$ 12,532 (2018 - R\$ 11,825).

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6. Risks management

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

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

On December 21, 2019, the Management considered as acceptable the exposure to the risks of Modal DTVM, once all the cash is invested in high liquidity operations, in general public bonds or committed operations with the parent company.

7. Credit operations

The margin account operations carried out as financing for the acquisition of shares were discontinued in November 21019, and gave rise to a result of R\$ 796 in 2019 (2018 - R\$ 1,050). The operations' guarantees were the financial assets under the custody of Modal DTVM, with market values higher than at least 140% of the granted credit, in shares group provided by the rules of B3 - Brasil, Bolsa, Balcão.

8. Other assets

On December 31, 2019, the amount of R\$ 2,462 (2018 - R\$ 2,337) refers substantially to the prepaid expenses on the acquisition of temporary license for the use of system and marketing and publicity services, which will be amortized during the average effectiveness term of the service of 15 months.

9. Negotiation and intermediation of securities

On December 31, 2019, the assets and liabilities balances refer to transactions carried out on behalf of customers in the stock, commodities and futures exchange, whose financial settlement will occur in an operating cycle of D+1 or D2. These are as follows:

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	2019		2018	
	Asset position	Liability position	Asset position	Liability position
Amounts to settle - Customer	56,707	42,459	51,222	50,740
Amounts to settle - Stock Exchange	42,459	58,274	50,741	50,914
Customer deposit (i)	-	158,563	-	162,828
Total	99,166	259,296	101,963	264,482

- (i) The amount of R\$ 158,563 (2018 - R\$ 162,828) refers to investors' resources available for future trade. Until these investors place the orders for the trades or are used for margin call coverage, DTVM keeps the funds invested in financial deposits at the Parent company (Note 4).

10. Other credits - sundry

	2019	2018
Tax credits (a)	4,454	6,690
Taxes and contributions to offset (b)	8,981	2,813
Administration fee (Notes 15 - 24)	4,550	4,215
Trade receivables - Customers (c)	1,688	993
Amounts receivable - related party (Note 23)	102	226
Debtors by guarantee deposits (d)	65	37
Advances and prepayment of salaries	29	-
Trade receivable - Commission for recommendation of customers (e)	-	1,556
Others	229	215
Total general	20,098	16,745
Short term	18,592	12,632
Long term	1,506	4,113

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

Tax realization year	Temporary differences	Tax loss/ Negative basis (ii)	Total General
2020	1,105	1,847	2,952
2021	-	1,502	1,502
Total general	1,105	3,349	4,454
Present value (i)	1,059	3,140	4,198
Year ended 12/31/2019			
Carrying amount	129	6,561	6,690
Present value	122	5,867	5,989

- (i) For the calculation of present value the DI x Fixed rate disclosed by B3 S.A. - Brasil, Bolsa, Balcão.
- (ii) During the year ended December 31, 2019, the amount of R\$ 3,454, of the Tax Credits inventory arising from Tax Losses and Negative Basis, was realized (Note 18).

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- (b) This refers to income tax and social contribution that were paid on estimates and will be offset, according to effective legislation.
- (c) These refer to receivables from trading platform related to December and settled by the customers in January 2020.
- (d) The item “Debtors for guarantee deposits” refers to judicial deposit for appeal against decision of social security payment, according to Note 20.
- (e) This refers to the partnership entered into by Modal DTVM and a company specialized in courses and training arising from the recommendation of broker’s customers.

11. Permanent assets

(a) PPE and intangible assets

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

<u>Property and equipment</u>	<u>12/31/2018</u>	<u>Acquisitions</u>	<u>Depreciation</u>	<u>12/31/2019</u>
Furniture and equipment in use	29	2,801	(280)	2,550
Systems and data processing	1,987	2,201	(684)	3,504
Property and equipment in course	18	952	-	970
Total	2,034	5,954	(964)	7,024

<u>Intangible assets</u>	<u>12/31/2018</u>	<u>Acquisitions</u>	<u>Amortization</u>	<u>12/31/2019</u>
Software	290	141	(90)	341
Prepaid intangible assets (i)	5,780	18,649	(454)	23,975
Total	6,070	18,790	(544)	24,316

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

<u>Intangible assets</u>	<u>12/31/2017</u>	<u>Acquisitions</u>	<u>Amortization</u>	<u>12/31/2018</u>
Software	82	267	(59)	290
Prepaid intangible assets (i)	470	5,310	-	5,780
Total	552	5,577	(59)	6,070

- (i) This refers to projects in development stage and concluded projects. The amortization occurs according to the business plan prepared by management, after the conclusion of the development stage, homologation and tests. The intangible assets amortization average term is of five years.

(b) Investment

In 2019, Modalmais Treinamento e Desenvolvimento Profissional LTDA (“Modal training”), whose objective is to offer courses and training aimed at the financial market, became controlled by Modal DTVM. The financial information and changes in investments are as follows:

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	Modalmais Treinamento e Desenvolvimento Profissional Ltda.
Number of shares/quotas owned	9,999
Modal interest - %	99.99%
Share capital	10
Equity	2,356
Net income	2,346
Carrying amount of the investments	2,356
Result of interest in subsidiaries	2,346

12. Tax and social security contributions

	2019	2018
Taxes and contributions on income	7,274	3,849
Taxes and contributions on salaries	1,714	769
Tax on revenue	969	685
Taxes and contributions on third-parties services	547	179
Other tax obligations (i)	480	646
Total	10,984	6,128

(i) Modal DTVM is the legal responsible for paying the taxes related to the income from the managed funds and distribution by account and order.

13. Other liabilities - sundry

	2019	2018
Personnel expenses	3,793	1,436
Amounts payable to related parties (i)	3,128	992
Allowance for doubtful accounts (ii)	2,320	-
Amounts payable - consulting (iii)	1,381	-
Phantom stock option program (iv)	567	220
Provision for contingencies (v)	117	-
Provision for administrative expenses	76	43
Provision for miles program	12	78
Other payables	540	461
Total	11,934	3,230
Short term	11,367	3,010
Long term	567	220

(i) This refers to payables to the parent company due to cost apportionment agreement of the structure shared by the group (Note 23(i)), whose settlement often occurs in six-month periods. During the year, the amount of R\$ 6,158 (2018 - R\$ 6,359) was settled.

(ii) Provision for losses with customers who maintain current accounts at Modal DTVM with a negative balance and no movement in the last 365 days and without guarantees in custody.

(iii) This refers to expert consulting in the power market, contracted by Modal DTVM to meet a specific demand of a managed investment fund. Modal DTVM's remuneration was charged in the management fee (Note 15).

(iv) This refers to the provision related to variable compensation program in the Phantom Stock Option modality, as detailed in Notes 3(l) and 23(ii).

(v) This refers to the provision for contingencies of a labor and civil nature, for which our legal advisors understand that the likelihood of loss is probable.

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14. Equity

Share capital

On April 30, 2018, 5,000,000 (five million) quotas were issued with a nominal value of R\$ 1.00, increasing the share capital to R\$ 41,504, represented by 41,503,500 subscribed and paid up shares, which was approved by Bacen on May 17, 2018.

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

Profit sharing

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

Interest on capital

At shareholders' meetings held on June 28, 2019 and December 30, 2019, the payments of R\$ 1,200 and R\$ 1,130 were approved, respectively, as interest on capital. The payments to the quotaholders occurred in the six-month period ended June and December in the proportion of the share capital interest held by each one.

To meet the Bacen Resolution No. 4,706/2018, the capital remuneration was recognized as a counter entry to the proper account in Equity.

Legal reserve

This reserve is constituted at an amount equivalent to 5% of the profit computed each financial year, up to the limit established by Brazilian Corporation Law and by the monetary authority.

Revenue to distribute

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 shareholders or absorption of accumulated losses. The balance of this reserve, together with the other revenue reserves, may not exceed the issued share capital, otherwise the excess will have to be capitalized or distributed.

15. Service revenue

	2nd six-month period of 2019	2019	2018
Brokerage	51,794	92,670	40,805
Funds administration fee (i)	19,880	26,635	9,144
Platform use / simulators / live rooms (ii)	8,294	16,779	6,007
Brokerage plans (iii)	1,823	5,076	5,607
Other revenues from provision of service (iv)	2,182	3,271	1,046
Fund distribution/Commission of intermediation of BTC	2,077	3,329	1,071
Commission for customers recommendation (v)	340	340	1,556
	86,390	148,100	65,236

(i) This mainly refers to administration fee received by Modal DTVM, regarding the gross structured funds of big institutional customers, managed by external managers or by managers of Grupo Modal.

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- (ii) These refer to business platforms (ProftChart, Tryd, MetaTrader), simulators (TrydPro Simulators, Simulator ProftChart, calculator etc) and live rooms (influencers), hired by DTVM and made available to the customers;
- (iii) This refers to revenue from adherence and maintenance of brokerage plans and their benefits by the broker's customers;
- (iv) This amount refers substantially to the fees received for the distribution of structured operations commission carried out during 2019 and the amount of R\$ 1,251 received as a "six-month direct treasury incentive" paid by B3 SA - Bolsa, Brasil, Balcão;
- (v) The amount refers to the partnership entered into by Modal DTVM and a company specialized in courses and training (Note 10(c)), arising from the recommendation of broker's customers for the acquisition of courses.

16. Personnel expenses

	2nd six-month period of 2019	2019	2018
Salaries	10,367	18,922	10,433
Social charges	3,035	5,044	2,670
Benefits	3,533	6,219	3,066
Training	225	265	179
Total	17,160	30,450	16,348

17. Other administrative expenses

		2nd six-month period of 2019	2019	2018
Data processing	(i)	17,375	35,757	23,647
Specialized technical services	(ii)	11,233	11,892	1,034
Publicity and representations		9,706	16,700	7,499
Financial system services		4,618	7,938	5,220
Rental and condominium fees		2,306	4,407	1,909
Depreciation and amortization		1,129	1,508	412
Communication		763	1,688	1,373
Third-parties services		793	1,666	936
Fines for contract terminations		580	580	55
Other expenses		551	1,003	877
Total		49,054	83,139	42,962

- (i) The expenses with data processing substantially refer to computer software that automates the broker operations and includes the hiring of platforms, simulators and live rooms (publicity), which are made available for the customers for acquisition, as described in Note 15(iv).
- (ii) 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	
	2019	2018	2019	2018
Result before taxation and statutory profit sharing	35,332	14,963	35,332	14,963
Profit sharing	(6,381)	(2,829)	(6,381)	(2,829)
Interest on capital	(2,330)	-	(2,330)	-
Equity in the results of investees	(2,346)	-	(2,346)	-
Provisions for contingencies	117	-	117	-
Other operating provisions - Note 13	2,320	336	2,322	336
Other permanent additions (exclusions)	71	(16)	77	(4)
Tax incentives "Lei do Bem"	(55)	-	(55)	-
Calculation basis before the income tax and social contribution losses (30%)	26,728	12,454	26,736	12,466
(-) Offset of income tax and social contribution losses	(8,019)	(3,736)	(8,021)	(3,740)
Adjusted calculation basis	18,709	8,718	18,715	8,726
Nominal rates (15% + additional 10%)	25%	25%	15%	15%
Additional Social Contribution- 5%	(i)			5%
Income tax and social contribution	4,654	2,103	2,808	1,745
Tax incentive	(187)	-	-	-
Income tax and social contribution, Net	4,466	2,103	2,808	1,745
Provision (reversal) of tax credits on tax losses, negative basis and other temporary differences (Note 10 (b))	(1,397)	(853)	(839)	(592)

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

19. Tax expenses

	2nd six-month period of 2019	2019	2018
COFINS	3,746	6,620	3,347
Service tax	2,105	3,815	1,506
Contribution to PIS	609	1,073	564
Other taxes	15	71	16
Total	6,475	11,579	5,433

20. Contingencies

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

(i) Labor

Since the first six-month period of 2019, there are only three labor lawsuits in progress, one of which is now closed (ratified agreement), leaving only the discussion regarding the payment of the social security quota. With any final outcome, the amount will be reimbursed by the seller of Safdié DTVM (previous name), according to provisions of the agreement of purchase and sale of quotas on August 15, 2014, reason why no provision was constituted for the mentioned lawsuit.

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(ii) Civil

Modal DTVM ("DTVM") is part of lawsuits, involving discussions with the customer within the scope of the Special Civil Court (JEC) and the Common Justice, which are classified as possible risk of loss, given the inherent uncertainty of this type of action. Therefore, due to the nature of these suits and the recent history of the their outcome, we have chosen to use the historical average as the basis for setting up a provision for contingencies on the stock of existing suits on 12/31/19. Currently, DTVM is a party to 70 lawsuits that are at different stages and, based on the history of success, conviction or signed agreements, we have constituted a provision of R\$ 47 in the balance sheet of 12/31/19.

21. Other operating expenses

In the year ended December 31, 2019, "Other operating expenses" was substantially represented as follows: **(i)** appropriation of expense related to amortization of the pre-operating expenditures for development of the modalmais platform (*homebroker*), as provided by the business plan, in the total amount of R\$ 782 (2018 – R\$ 782); **(ii)** construction and improvements in third-parties' real estate, whose rental agreement was signed by the parent company, due to cost apportionment contract, will be transferred to DTVM, in accordance with established criteria, in the amount of R\$ 867 (2018 - R\$ 415); **(iii)** Share option program (*Phantom stock option program*) – Note 23(ii) in the amount of R\$ 349 (2018 - R\$ 220); **(iv)** operating losses substantially arising from errors in the execution of orders due to downtime or to operating errors, which amounted to R\$ 2,839 (2018 – R\$ 2,522); **(v)** provisions for civil and labor contingencies R\$ 117; **(vi)** allowance for loan losses on customers with a debit balance in the current account and without positions in custody in the amount of R\$ 2,320.

22. Operating limits

Financial institutions have to maintain a minimum shareholder equity equivalent to 8% (2018 - 8.625%) of their consolidated assets, weighted by risk factor, increased by the percentage of their credit risk, their exposure to gold and to assets and liabilities linked to variations in foreign exchange and on interest rate variations, in accordance with the rules and instructions of the BACEN.

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

On December 31, 2019 and 2018, the Modal conglomerate, of which Modal DTVM is a part, was framed within this operating limit, as follows:

	<u>2019</u>	<u>2018</u>
Principal capital	204,945	212,884
Reference Equity (Level I + Level II)	204,945	212,884
Credit Risk Weighted Assets (RWACPAD) (a)	1,020,896	1,257,870
Market Risk Weighted Assets (RWAMPAD) (b)	150,125	321,607
Operational Risk Weighted Assets (RWAOPAD) (c)	<u>385,369</u>	<u>307,655</u>
RWA (a) + (b) + (c)	<u>1,556,390</u>	<u>1,887,132</u>
Minimum Required Reference Equity	<u>124,511</u>	<u>162,765</u>
Excess in relation to the Minimum Required Reference Equity	<u>80,434</u>	<u>50,119</u>
Index (%)	<u>13%</u>	<u>11%</u>
Amount of reference equity calculated for covering the interest rate risk of operations not classified in the trading portfolio (RBAN).	<u>6,654</u>	<u>1,267</u>

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23. Related parties

(i) Operations with the parent companies

Modal DTVM operated with the parent company through interbank deposits, in the amount of R\$ 168,000 (2018 - R\$ 165,041), giving rise to a result of R\$ 8,887 (2018 - R\$ 9,391).

Modal DTVM signed a cost apportionment agreement of the structure shared by the group (Note 21), whose settlement often occurs in six-month periods. On December 31, 2019, the net payable was R\$ 3,026 (2018 - R\$ 767) (Notes 10 and 13). The total paid during the year amounted to R\$ 6,158 (2018 - R\$ 6,359).

On December 31, 2019, the parent company is the counterparty of R\$ 1,568 (2018 - R\$ 4,914) in available funds.

The subsidiary Modalmais Treinamento has an investment with the counterparty being the parent company of R\$ 955 in bank deposit certificate and a balance of R\$ 7 in available funds.

(ii) Key management remuneration

Total key management remuneration for the year ended December 31, 2019 was R\$ 1,098 (2018 - R\$ 140) of fixed remuneration, classified as short-term benefit.

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

Variable remuneration program – *Phantom Stock Option*

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

The 2017, 2018 and 2019 Option Programs are of the “Phantom Stock Option” type, through which the beneficiary does not become a partner of any entity of Grupo Modal, it just acquires the right to receive the amount corresponding to the valuation of the shares of Grupo Modal, in the period of time between the grant and its maturity, in the proportion of its interest in the program, with no issue of new shares and any acquisition cost for the beneficiary.

The 2017, 2018 and 2019 Programs granted options that, on December 31, 2019, totaled 1.65% (2018 - 0.70%) of participation on the variation of the equity projected for December 31, 2021, 2022 and of 2023, compared to the plan's reference equity of December 31, 2017, 2018 and 2019, respectively.

The grant amount on 12/31/2019, calculated based on the projected equity, totals R\$ 5,944 (2018 - R\$ 1,826). Management discounts the grant amount to present value, considering the term already elapsed until December 31, 2019 (vesting period).

On December 31, 2019, the fair value estimated by management was R\$ 567 (R\$ 209 net of taxes), provided for as long-term liabilities. The provision will be adjusted in subsequent periods to the extent that the permanence periods provided for in the Option Programs are fulfilled, which end on December 31, 2021, 2022 and 2023.

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The fair values of the programs were estimated based on the Black & Scholes option valuation model, considering the following assumptions:

	Program		
	2017	2018	2019
Strike price (Parent company's Equity)	490,949	628,944	782,575
Duration up to the exercise (years)	2.00	3.00	4.00
Risk Free Rate	5.79%	6.17%	6.43%
Expected Annualized Volatility	62.7%	62.7%	62.7%
(Parent company) Equity at grant date	385,646	373,533	342,811
Grant percentage	-	0.95%	0.80%
Amount for granting at maturity	-	2,426	3,518

24. Subsequent events

Effect of the coronavirus on the financial statements

On March 10, 2020, the Federal Accounting Council (CFC) issued guidance highlighting the importance of entities carefully considering the impacts of COVID19 on their business and reporting in the financial statements the main risks and uncertainties arising from this analysis, in compliance with the applicable accounting standards.

On the date these Financial Statements were issued, DTVM identified no evidence of facts that could compromise the company's ability to maintain its operational continuity or its accounting estimates and judgments.

There is also no official position with respect to expectations for the segment. However, the Central Bank has been adopting measures to provide liquidity and greater flexibility regarding prudential regulation and requirements in case of renegotiated credits.

It is not possible to measure or anticipate possible future financial and economic impacts resulting from the pandemic of COVID19.

DTVM and its administrators monitor the situation and assess any impacts resulting from the pandemic.

25. Other information

On December 31, 2019, the net equity of the funds managed by Modal DTVM amounted to R\$ 31,649,591 (2018 - R\$ 28,880,195), net of the investments funds in quota funds that invest in internal funds.

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