Banco Modal S.A.

IFRS consolidated financial statements at December 31, 2020 and 2019 and independent auditor's report

Customer and Associates,

We present the management report of Banco Modal S.A. (“Bank” or “Modal”) and of its Subsidiaries (“Group” or “Conglomerate"), in accordance with the applicable legal and statutory provisions, together with the IFRS Consolidated Financial Statements for the years ended December 31, 2020 and 2019 together with the independent auditors’ report on these Financial Statements.

Our history

Modal was founded in 1996 and settled as an investment bank operating in structuring, coordination of large operations in the local market and strategic partnerships with the main international agents and leaders. The experience of a 24-year history resulted in the expansion of our business, which put together the best of the banks and the best of the brokerage agencies.

Modalmais, the Investors’ Digital Bank

It was launched in 2015 and it is a differentiated entrepreneurship history because it is an investment digital platform integrated to a bank. Since its launch, we have accelerated the transition process, investing not only in systems, but also in people and processes to develop together an entirely different financial institution. What drives us is the desire to create something that does not exist and to improve the lives of millions of people. With modalmais, we have a complete portfolio of investment products and functionalities for our customers.

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

Modalmais has three basic principles:

1. Reduced operating costs compared to the traditional banking sector, especially as it does not depend on branches and bureaucratic processes;
2. Make available the features of a digital bank and an investment platform. Simplifying the lives of our customers and promoting agility in their relations with modalmais through APP/WEB;
3. Delivering a striking and attractive visual experience to the customer, through a modern and friendly applicative.

Our mission is to promote more democratic access to investment.

Our customer base has been growing at an incredible speed, confirming the assertiveness of our strategy. In the semester, we reached the milestone of one million customers.

Innovation and Tradition

On June 22, 2020, the shareholders of Banco Modal (“Modal” or “modalmais”) and Credit Suisse (“CS”) entered into a long term strategic agreement, which provides that Credit Suisse may acquire preferred shares equal to up to 35% of the Modal’s total capital interest. Modalmais will continue being controlled by its founder, Diniz Baptista, and by its main officers, with no change in the governance and daily management, which keeps on being 100% modalmais.

Both banks have complementary operations - Credit Suisse is one of the world’s largest wealth managers with excellent investment bank skills and modalmais is a digital bank with a quick and modern investment platform that, in the competitive environment of the fintechs, soon became the leader digital platform in Brazil and a reference in the financial market - and we are working together to explore the synergies between the investment products and services:

1. Distribution, to the base of 1 million modalmais customers, of the Credit Suisse products, such as structured notes, investment funds, credit operations, stock offers, among others.
2. The access, by Credit Suisse, to the cutting edge technology of the modalmais digital platform and to all the functionalities and investment possibilities that a complete digital bank like modalmais can offer to serve its customers even better.

Credit Card

The credit card is the first credit product for investing customers, which are the focus of modalmais, and is part of other modalities that aim to meet the customers' demand and needs, such as anticipating redemption of funds, lines of credit secured by financial applications, among others. Our expectation is that the credit card will become a platform for contracting services such as bill payment, digital service subscription, hiring insurance, private pension, among others.

Innovative Technology

We are the first bank of Latin America to offer a credit and debit card with Motion Code technology. The technology is innovative because it makes the CVV dynamic, similar to a mobile token. The main objective is to invalidate the user data quickly in the face of on-line or physical fraud attempts. Security that does not affect the user experience, since the Motion Code was developed on cards similar to the traditional ones, and can be used in a simpler and safer way than the available methods, such as virtual card or QR Code.

Fidelity Program

The modalmais Reward Fidelity Program brought to Brazil the first CashForward program, using differentiated miles multipliers that offer even more benefits to the users of our cards. Customers will not have to worry about points expiring, as they do not expire. The accumulated points earn bonuses/dividends as if they were a real investment. The accumulated amount may be converted into cash and/or invested in funds and other financial products.

Private Pension

The new Private Pension product is fully integrated with the modalmais business platform, allowing the customer to make simulations, contracts, contributions and portability of other pension plans directly through the digital account and applicative. Investors can choose from 60 plan options with the best asset managers on the market and the plans, which are very affordable, can be contracted with monthly applications starting at R$ 100 or contribution/initial investment of R$ 1,000 and give the customer all the flexibility inherent to the requirements and concepts of a digital bank. The pension product is in line with what we have done in recent years, enabling a 100% digital relationship and integrated with our applicative. Thus, our financial products and services options are even more complete, reaching all investors profiles.

Financial education

We have partnerships with several influencers with a strong presence on social networks and offer content and courses with themes that cover initial investments and more complex issues, which our customers receive exclusively on a daily basis, as shown in the following examples:

- Podcast, video and text bulletins provided by a team of experts;
- Analysis of investments carried out by one of the main analysis consulting companies in the country;
- Lectures and training on platforms, products and services offered by modalmais.

Investir Juntos

On December 4, 2020, modalmais announced the acquisition of the financial education platform "Investir Juntos", with the purpose of making free and quality content available to its customer basis. Created in 2019, "Investir Juntos" is an educational platform that personalizes the customer's experience and learning and has become one of the largest digital customer generators interested not only in investing but also in learning.

Other Featured Projects and Partnerships

- HUB Capital – More focus on the B2B strategy

HUB is a full service investment platform, created 2 years ago to meet the new and more mature generation of Financial Advisor. With this inclusion to modalmais, we became managers of one more distribution channel, integrating a B2B platform. Through autonomous agents, we start to relate more intelligently to more potential customers for our business. This partnership reinforces once again our mission to democratize investments by offering our customers the best solutions and technology; driving our B2B strategy and ensuring the sustainability and growth of our bank.

Highlights of the period

Financial Highlights

(Amounts in R$ millions)	2020	2019
Assets	4,406	3,070
Cash and cash equivalent	2,058	502
Shareholders' Equity	586	376
Capital Level I + Level II	202	205
Reference Equity Level I	202	205
Reference Equity Level II	-	-
Comprehensive Income	27	48
Basel Index	11.0%	13.0%
Funds Under Management	70,019	46,239

Rating

Banco Modal is classified by the specialized agency Moody's, with a national scale rating of Baa1.br/BR-3, attributed in December 2019, which reflects the operational performance, financial strength and quality of management, in addition to other factors related to the financial sector and the economic environment in which Modal is inserted. On June 25, 2020, Moody's not only confirmed the rate on a national scale (Baa1.br/BR-3), but also confirmed, from a credit risk perspective, the positive bias of the strategic agreement signed with Credit Suisse.

Corporate Governance - Risks Management

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 maximum security for market risk, credit risk, operational risk and liquidity risk, all operations are monitored according to the limits determined by the Risk Management Committee. 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.

Based on best risk management practices, the Bank has developed policies, systems and internal controls to mitigate and control possible losses arising from exposure to the risks to which its activities are exposed, with a set of processes and routines appropriate to operational modalities.

Social Responsibility

#FuturoMaisSolidário Campaign – Fight against Covid-19

We know that the best way to help society at this moment is to support institutions that are dedicated to collecting donations for the purchase of adequate resources for our hospitals. Thus, we, from modalmais, gathered our strength to fight against Covid-19, aiming a more sympathetic future #FuturoMaisSolidário. Together, we donated to several reference hospitals in the states of Rio de Janeiro and São Paulo the ICU devices and basic utensils, such as masks and gloves, through the institutions União Rio and Comunitas. We also donated food to the families that suffered more with the pandemic, through the project Mães da Favela.

Results obtained with our support:

- The project Comunitas delivered more than 180 respirators.
- The União Rio Movement surpassed one million pieces of Personal Protective Equipment delivered to health professionals, contributing to the protection of these professionals who provide direct care to the people, offering security, ensuring less contamination and avoiding their removal.
- The project Mães da Favela received more than 600 food baskets bought by the employees of modalmais, which were engaged with an internal campaign. Thus, hundreds of needy families gained force to cross the pandemic.

Independent Auditors

The adopted policy complies with the principles that preserve the auditor's independence, in accordance with the internationally accepted criteria, which determine that the auditor should not audit his own work or perform managerial duties on his client or promote his interests. During the year ended December 31, 2020, the Bank's independent audit services, carried out by PricewaterhouseCoopers Auditores Independentes, contemplate the audit of the financial statements of Grupo Modal. The amount of the fees incurred with the independent auditors in the years was of R$ 1,515.

Acknowledgement

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

Rio de Janeiro, February 17, 2021

Board of Directors

Banco Modal S.A.
Consolidated Balance Sheet
(All amounts in thousands of reais unless otherwise stated) (A free translation of the original in Portuguese)

Assets	Note	12/31/2020	12/31/2019
Cash and cash equivalents	**6**	**2,057,592**	**502,473**
Financial Assets		**1,768,530**	**1,927,165**
At Amortized Cost		**453,017**	**445,409**
Marketable Securities	7	-	130,287
Other Financial Assets	16	318,224	224,005
Decrease in Compulsory Deposits in the Brazilian Central Bank		14,978	3,433
Credit operations	9	127,821	91,925
(-) Provision for Expected Loss	10	(8,006)	(4,241)
At Fair value through Other Comprehensive Income		**892,544**	**956,791**
Marketable Securities	7	892,544	956,791
At Fair Value through Profit or Loss		**422,969**	**524,965**
Marketable Securities	7	335,712	506,395
Derivatives	8	87,257	18,570
Non-current assets held for sale	**11**	**332,828**	**419,449**
Investments in Associates	**12**	**2,117**	**2,764**
Other assets	**16**	**17,225**	**10,725**
Tax Assets		**112,161**	**116,306**
Income tax recoverable	21.b	36,926	30,709
Deferred income tax and social contribution	21.c	75,235	85,597
Property and equipment	**13**	**21,755**	**26,742**
Right of use of leases	**14**	**12,124**	**16,912**
Intangible assets	**15**	**81,419**	**47,162**
Total Assets		**4,405,751**	**3,069,698**

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

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

Liabilities	Note	12/31/2020	12/31/2019
Financial liabilities		**3,745,436**	**2,638,759**
At Amortized Cost		**3,728,786**	**2,591,836**
Deposits	18	2,092,060	1,399,906
Funds obtained in the open market	17	1,412,003	860,293
Other Financial Liabilities	19	224,723	331,637
At Fair Value through Profit or Loss		**16,650**	**46,923**
Derivatives	8	16,650	46,923
Provisions and Contingent Liabilities	**22**	**1,460**	**2,074**
Other liabilities	**19**	**36,437**	**16,794**
Liabilities associated to Non-current Assets held for sale	**11**	**11,839**	**18,741**
Tax Liabilities		**24,326**	**17,226**
Current Income Tax and Social Contribution - Current	21.b	23,620	16,085
Income Tax and Social Contribution - Deferred	21.c	617	1,076
Other Tax Obligations		89	65
Total liabilities		**3,819,498**	**2,693,594**
Shareholders' Equity	**20**	**586,253**	**376,104**
Equity attributable to owners of the parent		586,253	376,104
Share capital		291,908	345,668
Capital reserves		228,974	-
Revenue reserves		71,385	41,002
Treasury shares		(6,349)	(10,755)
Other comprehensive income		335	189
Total Liabilities and Equity		**4,405,751**	**3,069,698**

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

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

	Note	12/31/2020	12/31/2019
Continuing operations			
Income from interest and similar earnings	**23**	**104,087**	**115,662**
At amortized cost and at fair value through other comprehensive income		104,087	115,662
Expenses with interest and similar	**23**	**(65,303)**	**(100,033)**
At Amortized Cost		(65,303)	(100,033)
Result of financial assets and liabilities at fair value through profit or loss	24	88,729	55,658
Service revenue	25	185,691	161,383
Foreign Exchange Result and Foreign Exchange Variation of Transactions Abroad	26	31,413	16,866
Result in the Sale of Credit Operations		(52)	-
Financial assets expected losses		**(3,765)**	**(2,147)**
Credit Operations	10	(3,765)	(2,147)
Result of financial intermediation and services		**340,800**	**247,389**
Personnel expenses	28	(100,618)	(60,485)
Tax expenses	29	(25,559)	(17,204)
General and administrative expenses	30	(149,723)	(110,168)
Equity in results of investees	12	2,194	2,770
Other operating income (expenses)	27	(1,213)	(9,298)
Provisions and Contingent Liabilities	22.g	(1,094)	(2,983)
Result before taxation		**64,787**	**50,021**
Income taxes			
Current	21.a	(20,092)	(15,720)
Deferred	21.a	(1,447)	12,571
Result with discontinued operations	**11.a**	**(16,170)**	**632**
Consolidated profit for the year		**27,078**	**47,504**
Attributable to controlling stockholders		27,078	37,656
Attributable to non-controlling interest		-	9,848
Diluted and basic earnings per share (in R$)	**20.f**		
Common Shares		684.4968	778.8116
Preferred Shares		684.8696	778.8116

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

	Note	12/31/2020	12/31/2019
Consolidated Profit for the Year		**27,078**	**47,504**
Other Comprehensive Income will be reclassified to the result whenever specific conditions are met:		**146**	**87**
Financial assets at fair value through other comprehensive income		**146**	**87**
Fair value variation	20.d	285	112
Tax effects		(139)	(25)
Consolidated comprehensive result for the year		**27,224**	**47,591**
Attributable to controlling stockholders		27,224	37,743
Attributable to non-controlling interest		-	9,848

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	Note	Share capital	Capital Reserves	Revenue Reserves	Treasury shares	Retained earnings of controlling stockholders	Other comprehensive income	Equity attributable to the controller	Non-controlling interests	Total Shareholders' Equity
At January 1, 2019		**345,668**	**-**	**3,351**	**(10,755)**	**-**	**102**	**338,366**	**152,676**	**491,042**
Result for the year		-	-	-	-	37,656	-	37,656	9,848	47,504
Variation in the fair value of the financial assets at fair value through other comprehensive income		-	-	-	-	-	87	87	-	87
Reversal of revenue reserves		-	-	37,656	-	(37,656)	-	-	-	-
Decrease in interest of non-controlling interest by redemption of invested funds	3(a)(i)e 20.h	-	-	-	-	-	-	-	(162,524)	(162,524)
Others		-	-	(5)	-	-	-	(5)	-	(5)
At December 31, 2019		**345,668**	**-**	**41,002**	**(10,755)**	**-**	**189**	**376,104**	**-**	**376,104**
At January 1, 2020		**345,668**	**-**	**41,002**	**(10,755)**	**-**	**189**	**376,104**	**-**	**376,104**
Result for the year		-	-	-	-	27,078	-	27,078	-	27,078
Variation in the fair value of the financial assets at fair value through other comprehensive income		-	-	-	-	-	146	146	-	146
Constitution of revenue reserves		-	-	27,078	-	(27,078)	-	-	-	-
Disposal of treasury shares	20.g	-	-	(806)	4,406	-	-	3,600	-	3,600
Capital increase	20.a	16,931	241,069	-	-	-	-	258,000	-	258,000
Capital decrease due to split	37.d	(70,691)	(12,095)	4,111	-	-	-	(78,675)	-	(78,675)
At December 31, 2020		**291,908**	**228,974**	**71,385**	**(6,349)**	**-**	**335**	**586,253**	**-**	**586,253**

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

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

	Note	12/31/2020	12/31/2019
Cash flows from operations			
Consolidated Profit for the Year		**27,078**	**47,504**
Provision for financial assets expected loss	10	3,765	2,147
Depreciation and amortization	13, 14 and 15	22,017	13,081
Deferred income tax and social contribution	21.a	1,447	(12,571)
Provision for share-based payments	27	3,826	1,106
Provision for contingencies	22.g	1,094	2,983
Profit sharing	28	18,236	9,699
Equity in results of investees	12	(2,194)	(2,770)
Appropriation of lease liability interest	14	(863)	(940)
Effect of the changes in the foreign exchange rates in cash and cash equivalents	26	(37,358)	(12,397)
Adjusted profit (loss)		**37,048**	**47,842**
Variations in Assets and Liabilities			
(Increase) decrease in compulsory deposits in the Brazilian Central Bank		(11,545)	(2,644)
Increase (decrease) in financial assets at amortized cost		3,772	(116,342)
(Increase) decrease in financial assets at fair value through profit or loss		101,996	(100,828)
(Increase) decrease in financial assets at fair value through other comprehensive income		64,247	(220,665)
(Increase) decrease in income tax to offset		(6,217)	(7,538)
Increase (decrease) in other assets		(6,624)	(4,112)
Increase (decrease) in financial liabilities at amortized cost		1,118,714	(387,658)
Increase (decrease) in financial liabilities at fair value through profit or loss		(30,273)	21,777
Increase (decrease) in provisions		(1,708)	(2,788)
Increase (decrease) in current tax liabilities and other tax obligations		11,088	16,693
(Increase) decrease in other liabilities		22,006	9,510
Increase (decrease) in liabilities associated to non-current assets for sale		(6,902)	341
Income tax and social contribution paid		(3,529)	(8,819)
Increase (decrease) in non-current assets for sale		18,397	338,309
Net cash provided by (used in) operating activities		**1,310,470**	**(416,922)**
Cash flows from investing activities			
Acquisition of property and equipment		(2,360)	(18,197)
Dividends received		1,406	-
Acquisition of intangible assets		(44,139)	(29,649)
Net cash provided by (used in) investing activities		**(45,093)**	**(47,846)**
Cash flows from financing activities			
Increase/Decrease of capital		258,000	-
Lease amortizations paid	14	(5,616)	(3,730)
Net cash provided by (used in) financing activities		**252,384**	**(3,730)**
Increase (decrease) in cash and cash equivalents		**1,517,761**	**(468,498)**
Cash and cash equivalents at the beginning of the year	6	502,473	958,574
Effects of the changes in the foreign exchange rates in cash and cash equivalents		37,358	12,397
Cash and cash equivalents at the end of the year	6	2,057,592	502,473
Complementary information			
Interest paid		334,159	185,715
Interest received		709,354	257,763
Non-cash transactions			
Assets transferred in corporate reorganization - Spin-off (Note 37 (d))		(70,691)	-

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

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

	Note	2020	2019
Revenue		**389,933**	**348,054**
Revenue with interest and similar	23	104,087	115,662
Service revenue	25	185,691	161,383
Result with discontinued operations		(16,170)	632
Result of financial assets and liabilities at fair value through profit or loss		88,729	55,658
Foreign exchange variation of transactions abroad		31,413	16,866
Result in the Sale of Credit Operations		(52)	-
Financial assets expected losses		(3,765)	(2,147)
Expenses		**(67,610)**	**(112,314)**
Expenses with interest and similar	23	(65,303)	(100,033)
Other operating expenses and provisions, net of revenue		(2,307)	(12,281)
Inputs acquired from third parties		**(126,663)**	**(97,806)**
Material, energy and others		(425)	(287)
Outsourced services		(122,228)	(94,247)
Others		(4,010)	(3,272)
Gross value added		**195,660**	**137,934**
Depreciation and amortization	30	(21,713)	(11,376)
Net value added generated by the entity		**173,947**	**126,558**
Value added received through transfer		**2,194**	**2,770**
Equity in results of investees	12	2,194	2,770
Value added to distribute		**176,141**	**129,328**
Distribution of value added		**176,141**	**129,328**
Personnel		**100,618**	**60,485**
Direct remuneration		71,405	42,061
Social charges		15,973	8,941
Benefits	28	13,160	9,108
Others- Training	28	80	375
Taxes and contributions		**47,098**	**21,119**
Federal		41,000	15,683
State		105	81
Municipal		5,993	5,355
Third-parties' capital remuneration		**1,347**	**220**
Rentals		1,347	220
Own capital remuneration		**27,078**	**47,504**
Retained earnings		27,078	37,656
Non-controlling interest		-	9,848

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

1. Operations

Banco Modal S.A. ("Bank" or "Modal") is a limited liability corporation, headquartered at Praia de Botafogo, 501 – 6º andar – Torre Pão de Açúcar - Rio de Janeiro - RJ, and its objective is to carry out banking operations and to render the permitted services for multiservice banks with commercial, investment and foreign exchange portfolios. It can also hold investments in other companies.

The Bank and its subsidiaries (together “Group” or “Conglomerate”) distribute products and services offered by the Group to institutional customers and through the investment portal “Modal Mais” (modalmais.com.br). Its subsidiary Modal Distribuidora de Títulos e Valores Mobiliários Ltda. (“Modal DTVM”) began its operations in 2015 and represents an important distribution and cross-selling channel for the products and services offered by the Bank.

On June 22, 2020, the shareholders of Banco Modal and Credit Suisse entered into a long term strategic agreement, which provides that Credit Suisse may acquire preferred shares of Modal Participações (Bank’s subsidiary) equal to up to 35% of the Modal’s total capital interest. The agreement aims to increase the synergy between the complementary operations of the two institutions.

The Bank also owns the subsidiaries Modal Assessoria Financeira Ltda. (“MAF”), which operates in the advisory and consulting of marketable securities and structured operations in the financial and capital markets, and Modal Real Estate Participações Ltda., which operates in the investment in the real estate sector.

Effect of COVID19 on the financial statements

On March 10, 2020, the Federal Accounting Council (CFC) issued guidance in which it highlights the importance of companies carefully considering the impacts of COVID19 on their business and reporting in the financial statements the main risks and uncertainties arising from this analysis, observing the applicable accounting standards. The Central Bank adopted measures to provide liquidity and greater flexibility regarding prudential regulation and requirements in the case of renegotiated credits and, through CMN Resolution No. 4,820, of May 29, 2020, it established temporary prohibitions for (i) the payment of interest on own capital and dividends above the mandatory minimum provided by the bylaws or by the law, when applicable; (ii) repurchase of own shares; (iii) decrease in share capital; (iv) increase in the remuneration, fixed or variable, of management members; and (v) advance payment of any of the previous items. It is not possible to predict whether new restrictions on distributions will be imposed by regulatory bodies of the National Financial System, and it is certain that, in the event of the imposition of such restrictions, the distribution of the Bank's results to its shareholders may be compromised.

The Bank and its managers monitor the situation and assess any impacts resulting from the pandemic. Even with the evolution of the knowledge and prophylaxis about the virus, it is still complex to measure the effect resulting from the impacts of the COVID 19 pandemic and as Management identifies these impacts, it measures and incorporates in its accounting judgments and estimates. These impacts, once identified, may have significant impacts on the financial statements. The possible impacts that may be observed are an increase in customer credit risk due to default in payments and an increase in provisions for losses on financial assets, decrease in the fair value of investments in securities and derivative financial instruments, increase in contingencies liabilities and changes in the estimated tax credit realization.

In its judgment, management incorporates the financial situation of its debtors when assessing the risk of significant deterioration in credit operations and classifying them in stages.

We emphasize that, as described in Note 11.2, in the semester ended December 31, 2019, the Bank has definitively and without co-obligation, assigned a substantial part of its loan portfolio. In this sense, Management did not see any significant impacts on its credit portfolio, nor did it perceive any significant effects on its liquidity and funding levels.

In the year ended December 31, 2020, management assessed the recoverability of non-financial assets and recorded a provision for impairment in the amount of R$ 351 thousand resulting from impairment, of properties classified as

Properties not for use. In addition, for the same base date, management evaluated the fair value of financial instruments not quoted in an active market (level III), as mentioned in Note 11.1.1, in the amount of R$ 258,376 thousand, which reflect the expectation of management regarding the impact of the pandemic on investee cash flows.

It is not possible to measure or anticipate the future eventual financial economic impacts arising from the COVID 19 pandemic. Up to the issuance of these financial statements, the Bank has not identified any evidence of facts that could significantly change the assessments carried out or indicate that the Bank may compromise its ability to maintain its operational continuity, as well as its accounting estimates and judgments.

The issue of these financial statements was authorized by Management on February 17, 2021.

2. Preparation Basis

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Bank's management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or information where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

In elaborating these financial statements, management considered all the accounting pronouncements in force issued up to its publication date.

The assets and liabilities are presented in the Consolidated Balance Sheet in liquidity and enforceability order, respectively.

Accounting Pronouncements Applicable to the period ended December 31, 2020

- Conceptual Framework - The main changes refer to: definitions of assets and liabilities; criteria for recognition, write-off, measurement, presentation and disclosure for equity and income elements. These changes are effective for the years began at January 1, 2019.

- Changes in IFRS 9/CPC 48 – Financial Instruments, IAS 39/CPC 38 – Financial Instruments: Recognition and Measurement and IFRS 7/CPC 40 - Financial Instruments: Disclosures - Due to the changes in the interest rates used as market reference - LIBOR (Interbank Offered Rate). The normative changes aim to minimize eventual impacts in the Hedge Accounting structures in current scenario of pre-replacement of rates. These changes are effective for years began at January 1, 2020 and gave rise to no impacts on the financial statements.

- Changes in IFRS 16 - Leases: Practical expedient that allows lessees not to characterize the concessions made to the lease motivated by the COVID-19 pandemic as amendment to the contract. This standard is effective for the year began at June 1, 2020, being allowed the anticipated adoption. Modal opted for not using the exception arising from the standard and, therefore, there were no impacts on the financial statements.

Accounting Pronouncements Recently Issued and Applicable to Future Periods

- IFRS 17/CPC 50 – Insurance Contracts: In May 2017, IASB issued IFRS 17/CPC 50 for segment contracts that aim at substituting IFRS 4/CPC 11. The implementation date of IFRS 17/CPC 50 is January 1, 2023. This standard aims to demonstrate greater transparency and useful information in the financial statements, one of the main changes being the recognition of profits as the insurance services are delivered, in order to assess the performance of insurance companies over time. Modal is assessing the possible impacts upon the adoption of the standard.

- IFRS 4 – Insurance Contracts – joint application of IFRS 9: The amendment allows entities issuing insurance contracts to mitigate possible impacts of the adoption of IFRS 9 - Financial Instruments before the effectiveness of IFRS 17. Modal is assessing the possible impacts of this standard.

- Amendment to IFRS10/CPC36 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures (Joint Ventures) - The amendments aim at aligning these two standards when dealing with the sale or contribution of assets between an investor and its associate or joint ventures. No relevant impact arising from this amendment was identified on the consolidated financial statements of the Banco Modal.

At the same base date, besides the IFRS consolidated financial statements, the Bank also prepared the individual financial statements, elaborated in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by BACEN.

3. Significant accounting practices

The following accounting practices were used in all the years presented in the financial statements consolidated by the Bank and its subsidiaries.

a) Consolidation basis

The consolidated financial statements reflect the assets, liabilities, revenue and expenses of the Bank and its subsidiaries.

(i) Subsidiaries

Direct and indirect subsidiaries are all entities in which the Bank has the power to determine financial and operating policies, generally as a result of holding more than half of the voting rights. The existence and effect of potential voting rights, currently exercisable or convertible, are taken into account when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated as from the date on which control is transferred to the Bank and are no longer consolidated from the date on which such control ceases.

Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Modal.

Group Treasury: Bank managed its cash through investment funds managed by Modal Asset Management: (“MAM”). In addition to direct investment in the funds, the Bank held indirect interest by investing in quotas of these same funds. In this context, the Bank consolidated investments whose direct participation is less than 51%, in which it acted as the principal investment holder, in which it held a relevant interest directly or indirectly and performed the management, allocated resources from its treasury and managed the main activities obtaining returns from these investments.

During the second six-month period of 2018, Modal Asset Management Ltda. (“MAM”) associated to Flag Gestora, creating Novus Capital (“Novus”) with the main officers of each entity and concentrating the management of the MAM’s and Flag’s funds in the new company, thus, transferring the management of the net funds to this new entity during the year ended December 31, 2019

(All amounts in thousands of reais unless otherwise stated)

During the year ended December 31, 2019, when the liquid funds mentioned above were transferred, Modal Group redeemed all the quotas held in the funds Novus Capital Master FI Multimercado, Novus Macro FIC de FIM and NC Raptor FIRF, therefore, the Bank does not consolidate them anymore. This transaction did not result in the outflow of resources from the Group. For more information, see Note 20(h).

Branch abroad: In the year ended December 31, 2019, the Bank ceased the operation of its branch in Cayman, duly approved by BACEN on April 8, 2019.

The controlled entities included in the consolidated financial statements are as follows:

				Interest (%)	
Entity	**Classification**	**Country**	**Activity**	**2020**	**2019**
Modal Asset Management Ltda. (1)	Subsidiary	Brazil	Management	99.99%	99.99%
Modal Assessoria Financeira Ltda.	Subsidiary	Brazil	Advisory	99.99%	99.99%
Modal Administradora de Recursos Ltda. (1)	Subsidiary	Brazil	Management	99.99%	99.99%
Modal Real Estate Participações Ltda.	Subsidiary	Brazil	Holding company	99.99%	99.99%
Modal Distrib. de Títulos e Val. Mobiliários	Subsidiary	Brazil	Broker	99.99%	99.99%

(1) As mentioned in Notes 11.3 and 38 (2), Modal Asset Management Ltda. ("MAM") and Modal Administradora de Recursos Ltda. ("MAR") were split up to create MAF DTVM, leaving the Bank to invest in these companies as part of the process of discontinuing the segment of Fiduciary Administration of Illiquid Funds.

(ii) Associates

Associates are all companies over which Modal has significant influence over financial and operating policies, although it does not control it. Significant influence is normally assumed when the Bank holds between 20% and 50% of the voting rights. Even with less than 20% of the voting right, the Bank may have significant influence, through participation in the management of the investee or participation in the Board of Directors, with voting power. The investments in associates are recorded in the financial statements as equity in the results of investees.

				Interest (%)	
Entity	**Classification**	**Assessment criterion**	**Activity**	**2020**	**2019**
KSM Desenvolvimento e Negócios Imobiliário Ltda. (1)	Associate	Equity in the results of investees	Management	100.00%	50.00%
Novus Capital Gestora de Recursos Ltda.	Associate	Equity in the results of investees	Management of portfolio	27.50%	30.00%

(1) KSM Desenvolvimento e Negócios Imobiliários S.A is ceasing its operations and its equity (R$38) is immaterial to Banco Modal S.A., which opted to not consolidate it.

(iii) Transactions and non-controlling interests

The Bank and its subsidiaries treat transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity, as "other comprehensive income".

When Modal ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

(iv) Business combination

The acquisition of a subsidiary through a business combination is recorded on the acquisition date, that is, on the date on which control is transferred to the Group, applying the acquisition method. In accordance with this method, the identified assets (including intangible assets not previously recognized), assumed liabilities and contingent liabilities are recognized at fair value on the acquisition date. Any positive values that exceed the difference between the acquisition cost and the fair value of the identifiable net assets acquired are recognized as goodwill. In the case of a negative difference (gain from a bargain purchase), the amount identified is recognized in the statement of operations for the period under Other operating income.

b) Translation of operations in foreign currency

(i) Functional and presentation currency

The consolidated financial statements are presented in Brazilian Reais, which is the functional and presentation currency of Modal and of all the subsidiaries. The functional currency is the currency of the main economic environment in which an entity operates.

(ii) Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions or the valuation, in which the items are measured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at exchange rates at the end of the year, referring to monetary assets and liabilities denominated in foreign currency, are recognized in the statement of operations.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities such as, for example, equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Exchange rate variations on non-monetary financial assets, such as investments in shares classified at fair value through other comprehensive income, are included in “Other comprehensive income” in equity.

c) Cash and cash equivalents

These are represented by cash, free reserves, cash in foreign currency and liquidity interbank investments whose maturity of operations on the effective investment date is equal to or less than 90 days and present an insignificant risk of change in fair value. The Group uses these instruments to manage its short term commitments.

d) Financial instruments with repurchase/resale agreement

Securities sold with a repurchase agreement on a specific future date are not written off from the balance sheet, as Modal retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the balance sheet as a return obligation, including interest appropriated as a liability, reflecting the economic substance of the transaction as a bank debt. The difference between the sale and repurchase price is treated as an interest expense and is appropriated over the duration of the contract using the effective interest rate.

e) Financial Assets

The Group classifies its financial instruments under the following measurement categories:

- Measured at amortized cost;

- Measured at fair value (whether through other comprehensive income or through profit or loss).

(i) Assessment of business model

The classification depends on the entity's business model to manage the financial assets and on the agreement terms of the cash flows. The financial assets may be managed in order to:

- Obtain contractual cash;

- Obtain contractual cash and negotiation; or

- Others

To assess business models, Modal considers the nature and purpose of operations and the risks that affect the performance of the business model; and how the performance of the business model is assessed and reported to management.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognized at the trade date, which is the date when the Group commits to purchase or sale the asset. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

Upon initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets at fair value through profit or loss are recorded as expenses in the result.

Financial assets with embedded derivatives are wholly considered when determining whether their cash flows consist only of payment of principal and interest.

Assessment to determine whether contractual cash flows refer exclusively to payment of principal and interest ("SPPI test")

When the financial asset is maintained in the business model to obtain contractual cash flow or to obtain contractual cash flow and sale, it is necessary to perform the SPPI test.

This test assesses whether the cash flows generated by the financial instruments constitute only payment of principal and interest. To meet this concept, cash flows should include only consideration for the value of money over time and credit risk.

(iv) Amortized cost

A financial asset, as long as it is not designated at fair value through profit or loss on initial recognition, is measured at amortized cost if both of the following conditions are met:

- It is maintained within a Business Model whose objective is to maintain assets in order to obtain contractual cash flows; and

- The contractual terms of the financial asset represent contractual cash flows that represent only payments of principal and interest.

(v) Effective interest rate

It is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial asset or financial liability to the gross book value of a financial asset (that is, its amortized cost before any provision for impairment) or the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees or receipts that are an integral part of the effective interest rate, such as origination fees.

Interest income is calculated by applying the effective interest rate to the gross book value of the financial asset.

(vi) Financial assets at fair value through other comprehensive income

Financial assets managed both to obtain cash flows consisting only of payments of principal and interest (SPPI Test), and for sale;

Gains and losses arising from changes in fair value and provisions for expected losses are accounted for in shareholders' equity, under “Other comprehensive income”.

In the years ended December 31, 2020 and 2019, there was no reclassification of the securities between the categories, besides it did not occur derecognition/sale of equity instruments at fair value through other comprehensive income.

(vii) Financial assets at fair value through profit or loss

Assets that do not meet the classification criteria of the previous categories; or assets designated by the entity upon initial recognition, irrevocably, as at fair value through profit or loss to significantly reduce or eliminate an inconsistency in measurement or recognition ("accounting mismatches");

Initially or subsequently recognized at fair value;

The gains and losses arising from changes in the fair value are recognized in the result.

(viii) Expected credit loss

It is the difference between all the contractual cash flows due and all the cash flows we expect to receive, less the original effective interest rate or the effective interest rate adjusted to the credit for financial assets purchased or granted with credit recuperation issues.

The Group records provision for expected losses for its loans and advances to customers, other debt instruments not measured at fair value through profit or loss, for its credit limits granted and not used and for the financial guarantee granted (Note 3. W), which in this section will be considered as “financial instruments”.

At each period reported, Modal Group assesses whether the risk of a financial asset significantly increases through reasonable and sustainable information that are material and available with no undue cost or effort, including qualitative, quantitative and prospective information. The prospective information is based on the macroeconomic scenarios that are annually reassessed or when market conditions require.

The expected credit loss model is based on the constitution of loss scenarios considering the characteristics of the products and its stages for the PD, LGD and EAD indexes.

- Probability of default (PD): it is defined as the probability that the counterparty does not comply with the obligations of paying the principal and/or interest. For IFRS 9/CPC 48 effects, both are considered: PD - 12 months (Stage 1), which is the probability that the financial instrument becomes default during the next 12 months as well as PD - life time (Stages 2 and 3), which considers the probability that the operations becomes default between the financial statements date and the operation's maturity date. The standard requires that future information relevant for the estimate of these parameters should be considered;

- Loss given default (LGD): it is defined as the percentage of losses of a risk exposition in the default moment and, once the event has occurred, the LGD includes three types of losses: (i) the loss of principal; (ii) the loss due to unpaid loan costs (including those opportunity costs); and (iii) the loss related to the expenses related to the charge process and credit recuperation; and

- Exposure at Default (EAD): is the value of the transaction exposed to credit risk, including the current available balance that could be provided at the time of default (balance of credit operations contracted, limits available to customers and not yet used and financial guarantees granted).

It also includes the use of prospective information and classification of the financial asset em three stages:

- Stage 1: when financial instruments are initially recognized, Modal recognizes a provision based on an expected loss for the next 12 months. Stage 1 also includes operations that had an improvement in their credit risk (Note 10) and that were reclassified from Stage 2.

- Stage 2: when a financial instrument has shown a significant increase in credit risk since its origination, Modal records a provision for an expected loss for the residual maturity of the financial instrument. Stage 2 also includes operations that had an improvement in their credit risk and that were reclassified from Stage 3.

- Stage 3: financial instruments considered with recovery problem. Modal records a provision for expected loss for the residual maturity term of the financial instrument. Applicable to financial assets originating or purchased with credit recovery problems.

The criteria for calculating the expected credit loss and for determining the significant increase in credit risk are presented in Note 10.

(ix) Equity instruments

The Modal Group subsequently measures all of its equity instruments at fair value through profit or loss, except when Management chooses, upon initial recognition, to designate, irrevocably, an equity instrument as at fair value through other comprehensive income if it is held with other purpose than just generating returns. When this choice is made, gains and losses on the instrument's fair value are recognized in the Accumulated Comprehensive Income and are not subsequently reclassified to the Statement of Operations, even on sale. Dividends keep on being recognized in the Statement of Operations when Modal Group's right is recognized.

Equity instruments are not subject to impairment according to IFRS 9/CPC 48 because they have already been evaluated at fair value.

(x) Derivative financial instruments

They are initially recognized at fair value and are periodically remeasured at their fair value with changes recognized directly in the statements of operations.

To determine the fair value of derivatives, it is necessary to assess whether the instrument in question is traded in an active market or not. In this second case, the calculation of fair value is carried out using pricing techniques, including discounted cash flow and other pricing models, such as the consideration of the credit risk of the counterparty (active derivatives) and the Bank (passive derivatives).

Financial instruments combined with other financial instruments, derivative or not, are treated as separate and recorded financial instruments, considering the economic characteristics and risks directly related to those of the main contract.

Derivatives embedded in passive financial instruments are separated from their main contracts and recorded, individually, if the economic characteristics and risks of the main contract and the embedded derivative are not intrinsically related, or an individual instrument with the same conditions as the embedded derivative satisfies the definition of a derivative.

f) Changes in contractual cash flows

For changes in the contractual cash flows of a financial asset that do not substantially change its terms and conditions and, consequently, do not lead to its write-off, any difference between the recalculated amount and the existing gross book value is "immediately recognized in the statement of operations as a gain or loss in the change. Any costs or fees incurred adjust the modified book value and are amortized over the remaining term of the financial asset.

If the renegotiation or modification substantially changes the terms and conditions of the financial asset, Modal writes off the original asset and recognizes a new asset. The renegotiation date is changed and the date of initial recognition of the new asset is considered for the purpose of calculating expected credit loss, including to determine significant increases in credit risk.

g) Write-off of financial instruments

Financial assets are written off when Modal has no reasonable prospect of recovering any additional cash flows from the financial asset, the contractual rights relating to the respective cash flows expire, or the bank transfers to third parties most of the risks and benefits associated with the operation. Therefore, if the risks and benefits have not been substantially transferred, Modal reevaluates its control and determines whether the actual involvement related to any retained control does not prevent it from making such a reversal.

A contract-based financial liability is written off when the obligation in respect of the liability is eliminated, canceled, expired or settled.

h) Determination of the fair value

Fair value, in accordance with IFRS 13/CPC 46, refers to the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an unforced transaction between market participants on the measurement date. Financial instruments that are measured at fair value after initial recognition should be grouped at levels 1 to 3 based on the observable degree of fair value.

- **Level 1:** measurements at fair value obtained from quoted prices (unadjusted) in active markets for identical assets or liabilities. They include highly liquid securities with prices observable in an active market. Derivatives traded on stock exchanges are also classified at level 1 of the hierarchy.

- **Level 2:** Valuation techniques for which the lowest and most significant information for measuring fair value is directly or indirectly observable. They include over-the-counter derivatives and quotas of investment funds without immediate liquidity.

- **Level 3:** Valuation techniques for which the lowest and most significant information for measuring fair value is not available At this level, models developed internally are used, based on curves generated according to the model itself. In this assessment, management uses models in which at least one input, which could have a significant effect on the price, is not based on observing market data. The instruments evaluated by this model correspond, basically, to the illiquid investment funds of Merchant Banking activities. The main assumptions used in these assessments are: 1 – discount rate, revenue and market growth, expected debt and macroeconomic assumptions such as inflation, market and country risks.

Further information on the fair value hierarchy can be found in Note 4.b.

i) Non-current assets held for sale and discontinued operations

Non-current assets held for sale include the carrying amount of individual items, or disposal groups or items that are part of a business unit intended for disposal, whose sale in its current condition is highly probable and whose occurrence is expected to occur within a year. Real estate or other non-current assets received by consolidated entities in full or partial liquidation of the payment obligations of their debtors are considered as non-current assets intended for sale through the execution of auctions in which they normally occur within up to one year. Non-current assets held for sale are measured at the lower of fair value less cost to sell and book value on the date they are classified in this category. Non-current assets held for sale are not depreciated.

Impairment losses determined in the initial classification as held for sale, and subsequent remeasurement gains and losses are recognized in the statement of operations.

The non-current assets held for sale that: 1) represent an important separate line of business; 2) are part of a single coordinated plan for the sale of an important separate line of business or operations; or 3) are subsidiaries acquired exclusively for the purpose of resale, are classified as discontinued operations.

j) Investments in subsidiaries

Subsidiaries are those companies over which the investor has significant influence, but does not have control. Investments in these companies are initially recognized at acquisition cost and subsequently valued using the equity method. The investment in subsidiaries includes the goodwill identified on the acquisition net of any accumulated impairment loss, when applicable.

k) Equity Investment Fund (“Fundo de Investimento em Participações - FIPs”):

The Bank records its investments in quotas of equity investment funds in accordance with IAS 28/CPC 18 which provide for the possibility of adopting measurement at fair value through profit or loss, in line with IFRS 9/CPC 48, for a portion participation in investment in a subsidiary, associate or joint venture, qualified as a venture capital organization, regardless of whether it exercises significant influence over this portion of the participation.

l) Property and equipment

They are measured at historical cost, excluding maintenance expenses, less accumulated depreciation and, if necessary, adjusted to their recovery value.

The useful lives and residual values of the assets are revalued and adjusted, if necessary, at each balance sheet date or when applicable.

Gains and losses on the sale of property and equipment are recorded (by the difference between the proceeds from the sale and the carrying amount of the property and equipment) in the statement of operations, under "Other operating income (expenses)".

(i) Subsequent costs

The cost of repair or maintenance of an item of property and equipment is recognized in the value of the asset, when it is probable that the future economic benefits incorporated into the asset will flow to Modal and its subsidiaries for more than one year, and its cost can be measured reliably. The carrying amount of the substituted items is not recognized. Other costs of repairs and maintenance of tangible assets are recognized in the statement of operations as they are incurred.

(ii) Depreciation

It is calculated to amortize the cost of property and equipment items, net of their estimated residual values, when applicable, using the linear method to lower the cost of property and equipment to their residual value over their estimated useful life. The estimated useful lives of the items of property and equipment are as follows:

Description	Estimated useful lifetime
Facilities	10 years
Furniture and equipment of use	10 years
Communication system	5 years
Data processing system	5 years
Security system	5 years

The depreciation methods, the useful lives and the residual values are reviewed at each balance date and adjusted if appropriate.

m) Leases

These correspond to the total of future payments at present value against the Right-of-use Asset, depreciated on a straight-line basis over the lease term and tested periodically to identify any impairment losses. In their initial registration, leases are recognized as a right-of-use asset and a corresponding financial liability on the date that the leased asset becomes available for use by the Bank.

The right-of-use to be registered is measured at cost against the lease liability, which represents the present value of the lease payments that have not been made up to the date. The lease payments are discounted using the incremental interest rate on the lessee's loan. The incremental interest rate is the interest rate that the lessee would have to pay when borrowing, for a similar term and with a similar guarantee, the resources necessary to obtain the asset with a value similar to the right-of-use asset in a similar economic environment. In determining this rate, Management considered its funding cost, its risk spread, the risk-free rate of return and the guarantees offered in similar transactions. There is no onerous contract that required an adjustment to the rights-of-use to be recorded as assets on the date of initial adoption.

The rights-of-use arises from rental contracts of the rooms where the Bank's offices are located, these contracts have an average term of 2 years and 9 months (2019 - 3 years and 9 months) and were discounted at an average incremental nominal rate of 4.83% p.a., considering the estimated nominal flow of payments. In the adoption of IFRS 16/CPC 06, the Bank used the following practical expedients:

- Failure to apply the recognition requirements for leases that, on the date of initial adoption, had terms of less than 12 months;

- Late perception, considering the renewal of subsequent contracts, in the lease terms.

n) Intangible assets

They are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Only assets whose cost can be reliably estimated and which are likely to generate future economic benefits are recognized.

Other intangible assets are comprised of:

Software: the software licenses are capitalized based on the costs incurred to purchase the software and make it ready for use. These costs are amortized over the estimated useful life of the software between three and five years.

Goodwill: goodwill results from the acquisition of subsidiaries and represents the excess of (i) consideration transferred; (ii) the value of the non-controlling interest in the acquiree; and (iii) the fair value on the acquisition date of any previous equity interest in the acquired company in relation to the fair value of the identifiable net assets acquired.

Advance of intangible asset: referring to projects that are under development within the scope of structuring digital bank products and services. The amortization occurs according to the business plan prepared by management, after the conclusion of the development stage, homologation and tests. The average amortization term of the intangible assets is 5 years. The development is of a unified platform of a digital bank, with several functionalities, the project is controlled in subprojects that come into operation at different times.

(i) Subsequent costs

Subsequent expenses with software are capitalized only when the future economic benefits incorporated in the specific asset to which they relate are increased.

(ii) Amortization

The amortization methods, the useful lives and the residual values are reviewed at each report date and adjusted if appropriate. The estimated useful lifetime for software and concluded projects is of 5 years.

o) Impairment of non-financial assets

It is recognized as a loss when the value of an asset or cash-generating unit accounted for is greater than its recoverable value. A cash-generating unit is the smallest identifiable group of assets that generates substantial cash flows, regardless of other assets or group of assets. The impairment losses, when applicable, are recorded in the result in which they were identified.

The values of non-financial assets are subject to periodic review, at least annually, to determine whether there is any indication of impairment.

p) Contingent assets and liabilities and legal obligations

The recognition, measurement and disclosure of contingent assets and liabilities are carried out in accordance with IAS 37/CPC 25, as follows:

Contingent assets: they are not recognized in the accounts, except when there are real guarantees or favorable judicial decisions, over which there are no more resources, characterizing the gain as practically certain. Contingent assets with probable success, when they exist, are only disclosed in the financial statements. There were no contingent assets on December 31, 2020 and 2019.

Contingent liability: it is a possible obligation that results from past events and whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not fully under Modal's control or an unrecognized present obligation because an outflow of resources is not likely. The contingent liabilities classified as possible losses are not recorded and are disclosed in the notes to the financial statements and those classified as remote are neither recognized nor disclosed.

Legal obligations (tax and social security): refer to legal claims where the legality and constitutionality of some taxes are being challenged, being the subject of an accounting provision. These amounts are fully recognized in the financial statements and updated according to the effective law.

q) Financial liabilities

These are classified at amortized cost, except:

- Financial liabilities at fair value through profit or loss. These liabilities, including derivatives that are liabilities, should be subsequently measured at fair value;

- Financial liabilities that arise when the transfer of the financial asset does not qualify for derecognition or when the continuous involvement approach is applicable;

- Financial guarantee contracts: after initial recognition, they are subsequently measured at the higher of: a) the amount of the provision for losses; and b) the amount initially recognized less, if appropriate, the accumulated amount of revenue recognized in accordance with the principles of IFRS 15/CPC 47; and

- Commitments to grant loans with interest rates below the market: they are subsequently measured at the higher of: a) the amount of the provision for losses; and b) the amount initially recognized less, if appropriate, the accumulated amount of recognized revenue.

r) Provisions

They are recognized when, as a result of a past event, Modal and its subsidiaries have a present, legal or constructive obligation, which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle an obligation. Provisions are fully or partially reversed when these obligations cease to exist or are reduced.

The contingent liabilities classified as possible losses are not recorded and are disclosed in the notes to the financial statements and those classified as remote are neither recognized nor disclosed.

s) Uncertainty about Income Tax Treatment

IFRIC 23/ICPC 22 is effective for the years began after January 1, 2019. The interpretation deals with taxes that are within the scope of IAS 12/CPC 32 - Income Taxes, with respect to the realization and/or acceptance of tax positions, by competent authorities. If there is uncertainty in the realization of the amounts, it is necessary to check the probability of the occurrence of this change, so that the records reflect the amounts with reliability. Regarding the recognition of the legal obligations, Modal follows the provisions of IAS 37/CPC 25. There were no impacts arising from the adoption.

t) Current and deferred income tax and social contribution

The income tax and social contribution expense for the period comprises current and deferred taxes and contributions recognized in the result.

The Corporate Income Tax (IRPJ) is calculated at the rate of 15%, plus an additional 10%, and the Social Contribution on Net Income (CSLL), at the rate of 20% for financial and similar institutions and 9% for non-financial subsidiaries, after making the adjustments determined by tax legislation.

The Bank and its subsidiaries also observe the accounting practice of setting up, as applicable, income tax and social contribution tax credits on temporary differences and tax losses. Such tax credits are recognized in the accounts based on expectations of realization, considering the technical studies and analyses carried out by Management.

u) Other assets and liabilities

They are stated at realizable values (assets) and known or calculable values, plus, when applicable, the corresponding charges and monetary variations incurred (liabilities), and provision for loss, when deemed necessary.

v) Employee benefits

Modal offers to its employees benefits according to the rules provided by IAS 19/CPC 33 - Benefits to employees.

(i) Short-term benefits

The short-term benefits are those to be paid within 12 months. The benefits that make up this category are: salaries, profit sharing and non-monetary benefits.

(ii) Termination benefits

Termination benefits are payable when the employment contract is terminated before the normal retirement date. The Bank provides medical assistance and a professional qualification and/or requalification course to its employees, as established by the category's union, as a form of termination benefit.

(iii) Post-employment Benefits

The Bank does not sponsor Defined Benefit Plans and Defined Contribution Plans, accounted for in accordance with IAS 19 - Employee Benefits.

w) Share-based payment

The Options Program was created in the “Phantom Stock Option” modality, whereby the beneficiary does not become a partner in any entity that is part of the Modal Group, but only acquires the right to receive the financial value corresponding to the appreciation of the value of the shares of Modal Group, perceived in the period of time between the grant and its maturity, in proportion to its participation in the program, without the issuance of new shares and without any acquisition cost for the beneficiary.

The fair value on the date of granting 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 percentage of grant on the difference between the Equity base of the grant and the projected Equity until the expiration of the option is applied, discounted to present value. This amount is adjusted by estimating the probability of voluntary resignations (non-exercisable options).

x) Shareholders' Equity

(i) Share capital

It consists of common and preferred shares, as described in Note 20.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Dividends and interest on capital

The shareholders of the Bank are assured a minimum dividend of 6% of share capital, not to be less than 25% of net income for the year, adjusted in accordance with corporation law.

The distribution of dividends and interest on capital to the Modal's stockholders is recognized as a liability in the financial statements at year-end based on the bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders at the General Meeting/Board of Directors' meeting.

(iii) Earnings per share

The amount of earnings per share was determined as if all earnings were distributed and calculated in accordance with the requirements of IAS 33/CPC 41 - Earnings per share.

- Basic earnings per share: it is presented based on the two classes of shares, common and preferred, and is calculated by dividing the net profit attributable to the parent company by the weighted average number of shares of each class in circulation during the year.

- Diluted earnings per share: is calculated by adjusting the weighted average number of common and preferred shares outstanding to assume conversion of all potential diluted common and preferred shares .

y) Related parties

Modal has related-party transactions, which are carried out at market prices and conditions. These transactions are shown in Note 31.

z) Revenue and expenses recognition

Revenue is recognized to the extent that it is probable that the economic benefit will be transferred to the Bank and that the revenue can be measured reliably. Expenses are recognized in the financial statements for the periods to which they refer, following the concept of the applicable rules.

The most significant criteria used by Modal to recognize its income and expenses are summarized below:

(i) Revenue with interest, expenses and similar

They are recognized on an accrual basis in the statement of operations, using the effective interest rate method.

The effective interest rate is the rate that discounts future estimated payments and receipts in cash over the expected life of the financial asset or liability (or, if appropriate, a shorter period) until the financial asset or liability's registration value is reached.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(ii) Service revenue

Recognition of service revenues from contracts with customers takes place in accordance with the principles described in IFRS 15/CPC 47, for the amount that reflects the consideration to which the entity expects to be entitled in exchange for these products or services. The revenue recognition process occurs according to the following stages:

- Identification of the contract and performance obligations;
- Determination of the transaction price;
- Allocation of the transaction price; and
- Revenue recognition after the performance obligations are met.

Expenses with services rendered and commissions paid are appropriated over the period in which the services are rendered.

The fees and commissions linked to loan agreements are recognized in the interest income lines, as they integrate the calculation of the effective rate.

If there is an associated financial instrument and the income or expenses arising from fees and commissions are considered as part of the effective interest rate, they are no longer recognized by IFRS 15/CPC 47 and are now recognized considering the provisions of IFRS 9/CPC 48, deferred in the result by the flow and term of the financial instrument.

(iii) Revenue with dividends and interest on capital

Dividend income is recognized in specific line on the statement of operations when the right to receive payment is established.

(iv) Other revenues and expenses

They are recognized when it is probable that future economic benefits or costs will be realized/incurred by the Bank, respecting the term and characteristics of the contractual relationship that gave rise to them.

aa) Financial guarantee contracts

Financial guarantees are contracts that require the Modal Group to make specific payments to the financial guarantee holder for a loss it incurred when a specific debtor failed to make payment, in accordance with contractual terms.

The Modal Group issues financial guarantees to its customers, in the normal course of its banking business.

After initial recognition, Modal measures at the highest value between: (i) the amount of the provision for losses; and (ii) the amount initially recognized less, if appropriate, the accumulated amount of revenue recognized in accordance with the principles of CPC 47.

bb) Management of investment funds

The bank manages and administers assets held in investment funds and other types of investment in favor of investors.

cc) Segments operations

According to IFRS 8/CPC 22, an operating segment is a component of an entity:

I. That operates in activities from which it may earn income and incur expenses (including income and expenses related to operations with other components of the same entity);
II. Whose operating results are regularly reviewed by the entity's main responsible for operating decisions related to the allocation of resources to the segment and the assessment of its performance, and
III. For which separate financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The main operational decision maker, responsible for allocating resources, evaluating the performance of the operating segments and who is responsible for making strategic decisions for the Consolidated, is the Group's Management, which is composed of the Executive Committee (“Comex”).

4. Accounting judgments and estimates

The preparation of Consolidated Financial Statements in IFRS requires the application of certain relevant assumptions and judgments that involve a high degree of uncertainty and that may have a material impact on the financial statements. In compliance with IFRS, Management applies estimates that can significantly change the amounts presented in our consolidated financial statements, and the amounts may differ in scenarios in which such propositions are not used. The accounting policies adopted, which are highly complex and guide relevant aspects in determining our operations, are described below.

Estimates and judgments Modal considers relevant are as follows:

a) Fair value of derivative financial instruments and quotas of equity investment funds

There are specific techniques for assessing the fair value of financial instruments that are not traded in active markets and for which prices and market parameters are not available. This calculation incorporates assumptions under Management's judgment, which takes into account the assessment of market information and circumstances.

- - Discount method to present value for valuation of financial instruments (method mainly applicable to debt instruments, "vanilla" swaps and forward operations): expected future cash flows are discounted to present value using the curves calculated based on observable market data (DIs, Future DDIs, etc.).

- Black-Scholes model for the valuation of financial instruments (mainly options and swaps): certain observable market information, such as the difference between bid and offer, exchange rates, volatility, correlation between indexes and market liquidity, are used as inputs in the Black-Scholes model for the purpose of determining the fair value of the financial instruments evaluated under this model.

- - Discounted cash flow method for valuing complex or illiquid financial instruments (method used to evaluate, mainly, equity investment funds): in these cases, management uses a significant degree of judgment to determine the model used by selecting specific data and, in some cases, valuation adjustments are applied to the value of the model or quoted price for financial instruments that are not actively traded. The methodologies used to assess the fair values of these instruments are described in Note 3(h).

b) Estimates of results for purposes of realizing the tax credit

The realization of the tax credit is based on projections of revenues from the different business units of the Bank, which have uncertainties. This assessment is supported by the entity's strategic planning and is duly submitted to the governance bodies.

c) Provision for impairment losses of credit operations

The impairment requirements provided for in IFRS 9/CPC 48 introduced an expected credit loss model instead of an incurred loss model, as it was done until then by IAS 39/CPC 38. The measurement of the provision for expected credit loss considers assumptions, such as:

- Determination of criteria for significantly increasing or reducing credit risk: Based on the monitoring of credit risk indicators, of the continuous monitoring of the financial situation of the counterparties and of public information, it is possible to determine whether there was a significant increase or decrease in credit risk.

d) Impairment of non-financial assets

The impairment test of non-financial assets involves significant estimates and judgments, including the identification of cash-generating units and their respective estimates of potential future economic benefits.

The impairment test of non-financial assets is carried out at least annually, in order to ascertain whether there is any indication that an asset may have been devalued. If there is any indication, Modal estimates the recoverable value of the asset, which is the highest of: i) its fair value less costs to sell it; and ii) its value in use. If the recoverable amount of the asset is lower than its carrying amount, the asset is reduced to its recoverable amount through a provision for loss, which is recognized in the Statement of Operations.

5. Operating segments

The Group evaluates its segments based on the guidelines established by the main strategic and operational decision maker of the company (Executive Committee - Comex). On December 31, 2020, Comex considers all the group as an only one reportable operating segment "modalmais", monitoring the operations, taking decisions about transfer of funds and evaluating the performance based on an only operating segment. Up to the year ended December 31, 2019, the operations were verified in four reportable segments, from which three were discontinued.

- Merchant Banking: segment related to the activities of Investment Banking, mainly Investments in investment funds in participations and shares of privately held companies managed by the former Private Equity area of the Bank and Assets not for use resulting from the execution of guarantees given in credit operations.

- Corporate Credit: Credit operations for working capital and marketable securities whose business model consists of maintaining to obtain contractual cash flows with credit characteristics granted to counterparties that are organizations or Business Groups. On November 6, 2019, by means of the credit assignment instrument, Banco Modal discontinued this segment, which resulted in the assignment of a substantial part of its credit portfolio as described in Note 11;

- Fiduciary Administration: Through the subsidiaries Modal Asset Management Ltda. ("MAM") e Modal administradora de Recursos Ltda. ("MAR"), the Bank performed the administration and management of investment funds from illiquid funds. In mid-2019, the Bank initiated the spin-off of the Fiduciary Administration operation (Note 11); and

- Digital Bank modalmais: Modalmais is a digital investment platform integrated with a digital bank with a high technological bias that unifies the operations of Banco Modal and Modal DTVM in order to offer, through banking services, a wide variety of investment options, structuring and distribution securities and financial intermediation, as well as foreign exchange and hedge transactions for customers.

In its evaluations, Comex does not verify financial and equity position data, concentrating its analyses on the performance of the operations of each business unit.

(All amounts in thousands of reais unless otherwise stated)

a) Management statement of operations by segment

					2020
			Opening of the Discontinued Segments		
	Total	Modalmais	Discontinued operations	Merchant Banking	Fiduciary Administration
Income from interest and similar earnings	**104,087**	**104,087**	**-**	**-**	**-**
At amortized cost and at fair value through other comprehensive income	104,087	104,087	-	-	-
Expenses with interest and similar	**(74,951)**	**(65,303)**	**(9,648)**	**(9,648)**	**-**
At Amortized Cost	(74,951)	(65,303)	(9,648)	(9,648)	-
Result of financial assets and liabilities at fair value through profit or loss	74,169	88,729	(14,560)	(14,560)	-
Service revenue	253,664	185,691	67,973	201	67,772
Foreign Exchange Result and Foreign Exchange Variation of Transactions Abroad	31,413	31,413	-	-	-
Result in the sale of Credit Operations	(52)	(52)	-	-	-
Financial assets expected losses	**(3,765)**	**(3,765)**	**-**	**-**	**-**
Credit Operations	(3,765)	(3,765)	-	-	-
Result of financial intermediation and services	**384,565**	**340,800**	**43,765**	**(24,007)**	**67,772**
Personnel expenses	(118,680)	(100,618)	(18,062)	(2,283)	(15,779)
Tax expenses	(30,676)	(25,559)	(5,117)	(13)	(5,104)
General and administrative expenses	(169,159)	(149,723)	(19,436)	(5,318)	(14,118)
Equity in results of investees	2,194	2,194	-	-	-
Other operating income (expenses)	(10,170)	(1,213)	(8,957)	(459)	(8,498)
Provisions and Contingent Liabilities	(1,094)	(1,094)	-	-	-
Result before taxation	**56,980**	**64,787**	**(7,807)**	**(32,080)**	**24,273**
Income taxes					
Current	(22,269)	(20,092)	(2,177)	11,432	(13,609)
Deferred	(7,633)	(1,447)	(6,186)	3,000	(9,186)
Consolidated profit (loss) for the year	**27,078**	**43,248**	**(16,170)**	**(17,648)**	**1,478**

(All amounts in thousands of reais unless otherwise stated)

						2019
			Opening of the Discontinued Segments			
	Total	**Modalmais**	**Discontinued operations**	**Merchant Banking**	**Corporate Credit**	**Fiduciary Administration**
Income from interest and similar earnings	**138,500**	**115,662**	**22,838**	**-**	**22,838**	**-**
At amortized cost and at fair value through other comprehensive income	138,500	115,662	22,838	-	22,838	-
Expenses with interest and similar	**(138,351)**	**(100,033)**	**(38,318)**	**(16,703)**	**(21,615)**	**-**
At Amortized Cost	(138,351)	(100,033)	(38,318)	(16,703)	(21,615)	-
Result of financial assets and liabilities at fair value through profit or loss	69,092	55,658	13,434	12,701	733	-
Service revenue	219,785	161,383	58,402	936	-	57,466
Foreign Exchange Result and Foreign Exchange Variation of Transactions Abroad	21,788	16,866	4,922	-	-	4,922
Result in the sale of Credit Operations	(2,316)	-	(2,316)	-	(2,316)	-
Financial assets expected losses	**19,137**	**(2,147)**	**21,284**	**-**	**21,284**	**-**
Credit Operations	19,137	(2,147)	21,284	-	21,284	-
Result of financial intermediation and services	**327,635**	**247,389**	**80,246**	**(3,066)**	**20,924**	**62,388**
Personnel expenses	(78,378)	(60,485)	(17,893)	(2,466)	(4,190)	(11,237)
Tax expenses	(21,687)	(17,204)	(4,483)	(32)	(13)	(4,438)
General and administrative expenses	(144,357)	(110,168)	(34,189)	(2,830)	(10,658)	(20,701)
Equity in results of investees	2,770	2,770	-	-	-	-
Other operating income (expenses)	(21,102)	(9,298)	(11,804)	34	(691)	(11,147)
Provisions and Contingent Liabilities	(2,983)	(2,983)	-	-	-	-
Result before taxation	**61,898**	**50,021**	**11,877**	**(8,360)**	**5,372**	**14,865**
Income taxes						
Current	(10,120)	(15,720)	5,600	9,233	7,020	(10,653)
Deferred	(4,274)	12,571	(16,845)	(7,031)	(9,814)	-
Consolidated profit (loss) for the year	**47,504**	**46,872**	**632**	**(6,158)**	**2,578**	**4,212**

6. Cash and cash equivalents

	12/31/2020	**12/31/2019**
Available funds	182	202
Free reserves	58,417	1,791
Available funds in foreign currency	225,115	28,727
Cash	**283,714**	**30,720**
Short-term interbank investments (1)	1,773,878	471,753
Cash and cash equivalents	**2,057,592**	**502,473**

(1) It includes operations whose maturity on the effective investment date is equal to or less than 90 days. These operations were practiced at an average rate of 3.3% p.a. (2019 - 4.8% p.a.).

(All amounts in thousands of reais unless otherwise stated)

7. Financial Assets - Marketable Securities

a) Breakdown

On December 31, 2020 and 2019, the debt and capital instruments are as follows:

Classification	12/31/2020			12/31/2019		
	Fair Value	Curve Value	Adjustment at fair value	Fair Value	Curve Value	Adjustment at fair value
Financial instruments at fair value through profit or loss						
Debt instruments	297,911	295,750	2,161	479,212	478,489	723
Capital instruments	37,801	37,801	-	27,183	27,066	117
Total	**335,712**	**333,551**	**2,161**	**506,395**	**505,555**	**840**
Financial assets at fair value through other comprehensive income (FVTOCI)						
Debt instruments	892,544	891,783	761	956,791	956,476	315
Total	**892,544**	**891,783**	**761**	**956,791**	**956,476**	**315**
Financial instruments at amortized Cost (CA) (1)						
Debt instruments	-	-	-	130,287	130,287	-
Total	**-**	**-**	**-**	**130,287**	**130,287**	**-**
Marketable Securities	**1,228,256**	**1,225,334**	**2,922**	**1,593,473**	**1,592,318**	**1,155**

(1) The balances of provision for expected loss referring to securities valued at amortized cost are available in Note 10.a.

b) Breakdown by classification, type of bonds and maturity:

The breakdown by classification, type of bonds and maturity of the Debt and Capital Instruments is as follows:

Bond / Maturity	No maturity	Up to 3 months	Between 3 and 12 months	Between 1 and 3 years	Between 3 and 5 years	Between 5 and 15 years	More than 15 years	12/31/2020 Total
Financial instruments at fair value through profit or loss (FVTPL)								
CRI	-	-	-	1,992	1,974	-	-	**3,966**
CRA	-	-	-	1,515	4,673	295	-	**6,483**
Private companies shares	1,004	-	-	-	-	-	-	**1,004**
Multimarket fund quotas	-	-	-	-	-	-	25,678	**25,678**
Fixed Income Fund Quotas	-	-	-	-	-	-	11,119	**11,119**
COE	-	-	-	15	1	1,487	-	**1,503**
Debentures	-	-	-	1,439	4,211	14,301	21,491	**41,442**
LFT	-	33,631	7,839	164,623	37,894	530	-	**244,517**
Total	**1,004**	**33,631**	**7,839**	**169,584**	**48,753**	**16,613**	**58,288**	**335,712**
Financial assets at fair value through other comprehensive income (FVTOCI)								
CDB	-	67	181	125	196	182	-	**751**
LC	-	-	-	319	6	-	-	**325**
LCI	-	20	110	187	10	-	-	**327**

(All amounts in thousands of reais unless otherwise stated)

LCA	-	157	64	254	-	-	-	**475**
NTN						2	419	**421**
TDA	-	-	-	-	-	1	-	**1**
LTN	-	-	-	9	-	-	-	**9**
LFT	-	103,798	42,766	743,384	287	-	-	**890,235**
Total	**-**	**104,042**	**43,121**	**744,278**	**499**	**185**	**419**	**892,544**
Financial instruments at amortized Cost (CA)								
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total general	**1,004**	**137,673**	**50,960**	**913,862**	**49,252**	**16,798**	**58,707**	**1,228,256**

								12/31/2019
Bond / Maturity	**No maturity**	**Up to 3 months**	**Between 3 and 12 months**	**Between 1 and 3 years**	**Between 3 and 5 years**	**Between 5 and 15 years**	**More than 15 years**	**Total**
Financial instruments at fair value through profit or loss (FVTPL)								
CRI	-	-	-	-	8,254	10,472	-	**18,726**
CRA	-	-	125	180	3,330	81	-	**3,716**
Shares in publicly traded companies	1,403	-	-	-	-	-	-	**1,403**
Private companies shares	703	-	-	-	-	-	-	**703**
Debentures	-	-	-	328	1,779	19,974	-	**22,081**
COE	-	-	95	-	47	-	-	**142**
LFT	-	50,717	14,009	64,067	293,890	983	10,881	**434,547**
Multimarket funds quotas	-	-	-	-	-	-	25,077	**25,077**
Total	**2,106**	**50,717**	**14,229**	**64,575**	**307,300**	**31,510**	**35,958**	**506,395**
Financial assets at fair value through other comprehensive income (FVTOCI)								
NTN	-	-	173	256	-	2	425	**856**
TDA	-	-	1	-	-	-	-	**1**
LTN	-	-	-	9	-	-	-	**9**
CDB	-	1	2	80	26	25	-	**134**
LC	-	-	20	3	1	-	-	**24**
LCI	-	-	-	51	-	-	-	**51**
LFT	-	247,199	30,017	338,638	287,641	52,221	-	**955,716**
Total	**-**	**247,200**	**30,213**	**339,037**	**287,668**	**52,248**	**425**	**956,791**
Financial instruments at amortized Cost (CA)								
CCI	-	-	-	-	20,382	19,663	-	**40,045**
NP	-	-	42,943	-	-	-	-	**42,943**
LFT	-	-	47,299	-	-	-	-	**47,299**
Total	**-**	**-**	**90,242**	**-**	**20,382**	**19,663**	**-**	**130,287**
Total general	**2,106**	**297,917**	**134,684**	**403,612**	**615,350**	**103,421**	**36,383**	**1,593,473**

(All amounts in thousands of reais unless otherwise stated)

8. Financial assets at fair value through profit or loss - Derivatives

Derivative financial instruments consist of futures, swap and forward transactions. They are classified according to Management's intention, on the date of contracting the operation, taking into account whether their purpose is to protect against risk (hedge) or not.

The Bank participates in transactions involving derivative financial instruments that are designated to fulfill its strategy and meet the needs of its customers, in order to reduce the exposure to market, currency an interest rate risks. Management of these risks is carried out based on policies that define the operating strategy, as well as monitoring controls and compliance with position limits.

The fair value of derivative financial instruments and the respective hedge objects is determined using the available market information, mainly the prices and rates disclosed by B3 S.A. When applicable, mathematical models of rate interpolation are used for intermediate terms and rate extrapolation for higher terms. For the calculation of the fair value of swap contracts, the future cash flow was used, discounted at present value by the future interest curves obtained from B3 S.A. adjusted by the counterparty credit risk (Credit Value Adjustment - CVA).

Substantially represented by Modal's own funding hedge and by investment strategies of customers in the national and/or international currency, commodities and interest markets, registered at B3. Derivative transactions carried out with customers are neutralized in order to eliminate market risks for Modal.

a) Breakdown of derivatives (assets and liabilities)

The fair value of derivative financial instruments recorded as assets and liabilities is as follows:

	12/31/2020			12/31/2019		
	Updated cost	Fair value	Unrealized result	Updated cost	Fair value	Unrealized result
Asset position						
Purchase options – financial assets	316	455	139	16	15	(1)
Future purchase receivable	26,718	26,056	(662)	14,373	14,056	(317)
Future sale receivable	60,649	60,701	52	4,035	3,978	(57)
Differential of swap contracts	38	38	-	27	27	-
Foreign exchange purchased to settle	-	-	-	452	452	-
Right on sale of foreign exchange	-	-	-	-	-	-
Structured Operations Certificate– COE	7	7	-	42	42	-
Total	**87,728**	**87,257**	**(471)**	**18,945**	**18,570**	**(375)**
Liability position						
Premiums of launched options	(310)	(455)	145	-	-	-
Future sale payable	(2,397)	(2,000)	(395)	(4,768)	(4,644)	(124)
Future purchase payable	(6,325)	(6,868)	543	(12,148)	(13,223)	1,075
Swap contracts differential	-	(7,327)	7,327	(28,435)	(28,450)	15
Foreign exchange sold to settle	-	-	-	(157)	(157)	-
Obligations for purchase of foreign exchange	-	-	-	(449)	(449)	-
Total	**(9,032)**	**(16,650)**	**7,620**	**(45,957)**	**(46,923)**	**966**

(All amounts in thousands of reais unless otherwise stated)

b) Value of derivative financial instruments by indexer

				12/31/2020
	Custody location	Purchased position	Sold position	Net Exposure
Options (Financial assets)				
Commodities-purchase	NYBOT	6,563	(6,563)	-
Future market				
Interest rate	B3	214,901	(66,990)	**147,911**
Currency	B3	181,885	(404,017)	**(222,132)**
Commodities	B3	-	(59,072)	**(59,072)**
Index	B3	-	(1,451,033)	**(1,451,033)**
Foreign exchange coupon	B3	-	(181,945)	**(181,945)**
Price index - DAP	B3	-	-	-
Commodities	NYBOT	89,762	-	**89,762**
Interest rate	CME	-	(138,473)	**(138,473)**
Commodities	CME	59,928	-	**59,928**
Index	CME	1,460,916	-	**1,460,916**
Currency	CME	-	-	-
Index	CBOE	-	-	-
Currency	EUREX	-	-	-
Commodities	SGX	-	(24,839)	**(24,839)**
Index	ICE-US	-	-	-
Commodities	ICE-US	-	(51,433)	**(51,433)**
Forward market				
Currency	B3	246,585	(263,756)	**(17,171)**
Commodities	B3	98,163	(181,909)	**(83,746)**
Swap				
Interest rate	B3	-	(1,751)	**(1,751)**
Currency	B3	-	-	-
Commodities	B3	-	-	-
Stock exchange index	B3	1,788	-	**1,788**
Share	B3	-	-	-
Other derivative instruments				
COE	B3	15	-	**15**

(All amounts in thousands of reais unless otherwise stated)

	Custody Location	Purchased position	Sold position	Net Exposure
				12/31/2019
Options (Financial assets)				
Commodities-purchase	NYBOT	1,834	-	**1,834**
Future market				
Interest rate	B3	30,974	(133,177)	**(102,203)**
Currency	B3	139,059	(824,602)	**(685,543)**
Commodities	B3	2,579	(5,973)	**(3,394)**
Index	B3	1,158,940	(452,991)	**705,949**
Foreign exchange coupon	B3	274,590	(275,077)	**(487)**
Price index - DAP	B3	-	(4,622)	**(4,622)**
Commodities	NYBOT	56,644	(1,969)	**54,675**
Interest rate	CME	57,966	-	**57,966**
Commodities	CME	5,977	-	**5,977**
Index	CME	453,805	-	**453,805**
Currency	CME	1,339	-	**1,339**
Index	CBOE	59	-	**59**
Currency	EUREX	-	(51,532)	**(51,532)**
Commodities	SGX	-	(3,742)	**(3,742)**
Index	ICE-US	-	(1,162)	**(1,162)**
Commodities	ICE-US	121	(110,310)	**(110,189)**
Forward market				
Currency	B3	780,745	(175,980)	**604,765**
Commodities	B3	103,519	(77,755)	**25,764**
Swap				
Interest rate	B3	1,281	(1,266)	**15**
Currency	B3	61,454	(61,845)	**(391)**
Commodities	B3	1,898	(1,908)	**(10)**
Stock exchange index	B3	1,132,095	(1,160,100)	**(28,005)**
Share	B3	1,371	(1,403)	**(32)**
Other derivative instruments				
COE	B3	32	-	**32**

c) Opening by maturity - nominal amount (principal)

	Up to 30 days	From 31 to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Total
						12/31/2020
Options (financial assets)	-	-	-	-	-	-
Purchased position	6,563					**6,563**
Sold positions	(6,563)					**(6,563)**
Future market	**-**	**-**	**-**	**(396,920)**	**26,510**	**(370,410)**
Purchased position				1,930,868	76,524	**2,007,392**
Sold positions				(2,327,788)	(50,014)	**(2,377,802)**
Forward market	**(32,053)**	**(75,330)**	**(63,451)**	**26,180**	**43,737**	**(100,917)**
Purchased position	34,068	138,910	73,506	54,526	43,737	**344,747**
Sold positions	(66,121)	(214,240)	(136,957)	(28,346)		**(445,664)**
Swap	**-**	**37**	**-**	**-**	**-**	**37**
Asset position	-	1,788	-	-	-	**1,788**
Liability position	-	(1,751)	-	-	-	**(1,751)**
COE	**-**	**-**	**-**	**-**	**15**	**15**

(All amounts in thousands of reais unless otherwise stated)

Asset position	15	**15**

						12/31/2019
	Up to 30 days	**From 31 to 90 days**	**From 91 to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Options (financial assets)	**-**	**1,834**	**-**	**-**	**-**	**1,834**
Purchased position	-	1,834	-	-	-	**1,834**
Future market	**(28,056)**	**472,599**	**4,986**	**(100,560)**	**(32,073)**	**316,896**
Purchased position	141,697	1,974,053	18,463	16,866	30,974	**2,182,053**
Sold positions	(169,753)	(1,501,454)	(13,477)	(117,426)	(63,047)	**(1,865,157)**
Forward market	**(58,788)**	**488,737**	**70,367**	**123,794**	**6,419**	**630,529**
Purchased position	20,087	601,471	108,088	148,209	6,419	**884,274**
Sold positions	(78,875)	(112,734)	(37,721)	(24,415)	-	**(253,745)**
Swap	**(6)**	**(28,417)**	**-**	**-**	**-**	**(28,423)**
Asset position	438	1,197,661	-	-	-	**1,198,099**
Liability position	(444)	(1,226,078)	-	-	-	**(1,226,522)**
COE	**-**	**-**	**-**	**-**	**32**	**32**
Asset position	-	-	-	-	32	**32**

d) Opening by maturity - differential receivable (payable)

						12/31/2020
	Up to 30 days	**From 31 to 90 days**	**From 91 to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Trade receivables	**4,345**	**37,215**	**40,526**	**2,581**	**2,590**	**87,257**
Swap	-	38	-	-	-	**38**
Forward market	3,883	37,177	40,526	2,581	2,590	**86,757**
Financial Assets	455	-	-	-	-	**455**
COE	7	-	-	-	-	7
Amounts payable	**(9,492)**	**(2,648)**	**(1,546)**	**(1,890)**	**(1,074)**	**(16,650)**
Forward market	(1,710)	(2,648)	(1,546)	(1,890)	(1,074)	**(8,868)**
Financial Assets	(7,782)	-	-	-	-	**(7,782)**

						12/31/2019
	Up to 30 days	**From 31 to 90 days**	**From 91 to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Trade receivables	**1,381**	**11,463**	**686**	**4,546**	**42**	**18,118**
Purchase option	-	15	-	-	-	**15**
Swap	7	20	-	-	-	**27**
Forward market	1,374	11,428	686	4,546	-	**18,034**
COE	-	-	-	-	42	**42**
Amounts payable	**(1,433)**	**(37,512)**	**(4,310)**	**(2,870)**	**(192)**	**(46,317)**
Swap	(13)	(28,437)	-	-	-	**(28,450)**
Forward market	(1,420)	(9,075)	(4,310)	(2,870)	(192)	**(17,867)**

(All amounts in thousands of reais unless otherwise stated)

e) Economic hedge

The Bank uses different financial instruments for economic hedge such as options, forward, future and swap with periodic adjustment. The use of these instruments is intended to hedge treasury positions in markets, aiming to adjust the level of risk in the portfolio whenever the risk area deems necessary.

On December 31, the hedge of the expositions in U.S. dollar and IPCA are as follows:

(i) The hedge of the dollar exposition:

Instrument	12/31/2020 Purchased position	12/31/2020 Sold position	12/31/2019 Purchased position	12/31/2019 Sold position
Non Deliverable Forward - NDF [1]	253,970	(224,727)	768,836	(148,854)
Future Market	-	(404,016)	276,259	(962,718)
Availability in Foreign Currency - U.S. Dollar spot	373,774	-	67,971	-
Total general	**627,744**	**(628,743)**	**1,113,066**	**(1,111,572)**

(1) It represents the value of the contracts registered with B3, restated up to the base date

(ii) The hedge of the exposition in the IPCA indexer is as follows:

Instrument [1]	12/31/2020 Purchased position	12/31/2020 Sold position	12/31/2019 Purchased position	12/31/2019 Sold position
Credit operations	51,177	-	26,087	-
Government bonds (NTN-B) [2]	-	(39,378)	855	(13,762)
Price index BM&F - DAP	-	-	-	(4,618)
Total general	**51,177**	**(39,378)**	**26,942**	**(18,380)**

(1) The values above represent the principal updated by the rate agreed on each transaction.
(2) The sold position is related to the fund raising in committed operations with free changes, where we sell the backing and have the obligation to repurchase the securities up to the operation's maturity.

9. Financial Assets at Amortized Cost - Credit Operations

a) Breakdown

Credit operations and other credits categorized by credit modality and internal classification, as well as the corresponding provision for loss for each one of the categories are as follows:

Credit modality	12/31/2020 Total	12/31/2020 Expected loss	12/31/2019 Total	12/31/2019 Expected loss
Borrowings and discounted bonds[1]	106,523	(7,993)	41,206	(4,198)
Other credits	21,298	(13)	50,719	(14)
Total	**127,821**	**(8,006)**	**91,925**	**(4,212)**

1 - Composed of collateralized credit operations, loans and operations aimed at cross-selling for operations in the digital bank modalmais.

(All amounts in thousands of reais unless otherwise stated)

b) Credit Concentration

Largest debtors	12/31/2020 Amount	% on the portfolio	12/31/2019 Amount	% on the portfolio
10 largest debtors	95,256	74.5%	82,420	89.7%
50 following largest debtors	16,828	13.2%	5,828	6.3%
100 following largest debtors	1,686	1.3%	995	1.1%
Other debtors	14,051	11.0%	2,682	2.9%
Total	**127,821**	**100.0%**	**91,925**	**100.0%**

c) Concentration by activity sector

Sector	12/31/2020 Amount	%	12/31/2019 Amount	%
Commerce	315	0.2%	552	0.6%
Services	87,037	68.1%	38,098	41.4%
Individual	40,469	31.7%	53,275	58.0%
Total	**127,821**	**100.0%**	**91,925**	**100.0%**

d) Maturity ranges

12/31/2020	Overdue			Falling due			
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Up to 180 days	From 181 to 360 days	After 360 days	Total
Borrowings and discounted bonds	5,062	1,768	3,154	11,229	16,462	68,848	**106,523**
Other credits	-	-	-	6,417	4,617	10,264	**21,298**
Total	**5,062**	**1,768**	**3,154**	**17,646**	**21,079**	**79,112**	**127,821**

12/31/2019	Overdue			Falling due			
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Up to 180 days	From 181 to 360 days	After 360 days	Total
Borrowings and discounted bonds	2,229	1,193	1,792	5,536	5,079	25,377	**41,206**
Other credits	-	-	-	30,713	9,333	10,673	**50,719**
Total	**2,229**	**1,193**	**1,792**	**36,249**	**14,412**	**36,050**	**91,925**

10. Financial assets by risk stage and changes in provision for expected credit loss

The Modal Group periodically assesses the expected credit losses from financial assets, which take into account the historical experience of credit losses in different types of portfolios, the quality and the current characteristics of customers and operations. The main macroeconomic variables used in this process are Brazilian interest rates, inflation rates and economic activity indexes (GDP).

The estimate of expected loss on financial assets is divided into three categories (stages):

- Stage 1: Financial assets that showed no significant increase in credit risk;
- Stage 2: Financial assets that showed significant increase in credit risk; and
- Stage 3: Financial assets that have shown that they will not be fully honored.

The measurement of expected credit loss requires the application of significant assumptions, such as:

(All amounts in thousands of reais unless otherwise stated)

Term: Modal Group considers the residual maturity date of the operation as the maximum term over which it will be exposed to the credit risk of the financial instrument. However, assets that do not have a specific maturity have an estimated life expectation based on the period of exposure to the portfolio's historical credit risk.

Significant increase in credit risk: Modal Group evaluates several factors to determine a significant increase in credit risk, such as: the counterparty, the type and characteristics of the product, frequency and history of renegotiations, evaluation of agents external to Modal Group (such as rating reports issued by credit rating agencies), considering the following objective criteria as minimal factors:

- Stage 1 to stage 2: default of more than 45 days; and
- Stage 2 to stage 3: default of more than 90 days and indicative of deterioration in credit quality, such as recurring renegotiations, among others.

Improvement in credit risk: to determine the decrease in the credit risk of a financial asset, Modal Group mainly evaluates the fulfillment of the renegotiation conditions of the object operation (renegotiation of contractual terms, relevant payment of part of the financial asset and/or payment of installments) and it resumes periodic monitoring of the assumptions that determine the significant increase in credit risk.

Forward-looking information: IFRS 9/CPC 48 requires a weighted and impartial estimate of credit loss that incorporates forecasts of future economic conditions. The Modal Group uses prospective macroeconomic information and projected public information to determine the impact of these estimates in determining the expected credit loss.

Individual or collective evaluation

For the purposes of collective evaluation, financial assets are grouped based on characteristics of shared credit risk, taking into account the type of instrument, the credit risk classifications, the initial recognition date, the average history of losses and recoveries of the portfolio among other relevant factors.

For the purpose of individual evaluation, the financial assets and financial guarantees granted to our customers (Note 3.v and Note 33) have their credit risk evaluated, mainly considering: (i) the history of other credit operations previously granted to financial guarantees (ii) history of renegotiation of operations, if any; (iii) qualitative analysis of credit risk using data internal and external to our organization, such as ratings issued by risk agencies and reports issued and published by companies to the market; (iv) quantitative analysis of credit risk, which includes the assessment of available financial data; history of the debtor's restrictions, if any; history of credit operations with other financial institutions, when publicly disclosed; among others.

a) Opening by stage

				12/31/2020
Financial assets carried at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Borrowings and discounted bonds	73,097	33,959	20,765	127,821
Expected losses	(121)	(2,433)	(5,452)	(8,006)
Financial assets carried at amortized cost, net of expected losses	**72,976**	**31,526**	**15,313**	**119,815**

				12/31/2019
Financial assets carried at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Borrowings and discounted bonds	78,748	421	12,756	91,925
Marketable securities	82,988	-	-	82,988
Expected losses	(63)	(8)	(4,170)	(4,241)
Financial assets carried at amortized cost, net of expected losses	**161,673**	**413**	**8,586**	**170,672**

(All amounts in thousands of reais unless otherwise stated)

b) Changes in expected loss

	Stage 1	Stage 2	Stage 3	Total [2]
At December 31, 2019	**(63)**	**(8)**	**(4,170)**	**(4,241)**
Transfers from Stage 1	5	(1)	(4)	-
Transfers from Stage 2	-	-	-	-
Transfers from Stage 3 [1]	(3,366)	-	3,366	-
(Constitution) reversal of expected loss for the following 12 months	3,284	(2,432)	-	852
Constitution) reversal of loss expected up to maturity	-	-	(5,022)	(5,022)
Reversals due to settlements/write-offs of Credit Operations	19	8	378	405
At December 31, 2020	**(121)**	**(2,433)**	**(5,452)**	**(8,006)**

	Stage 1	Stage 2	Stage 3	Total [2]
At December 31, 2018	**(90)**	**(1,363)**	**(640)**	**(2,093)**
Transfers from Stage 1	10	-	(10)	-
Transfers from Stage 2	(640)	655	(15)	-
Transfers from Stage 3 [1]	(640)	-	640	-
(Constitution) reversal of expected loss for the following 12 months	1,297	-	-	1,297
Constitution) reversal of loss expected up to maturity	-	(8)	(4,145)	(4,153)
Reversals due to settlements/write-offs of Credit Operations	-	708	-	708
At December 31, 2019	**(63)**	**(8)**	**(4,170)**	**(4,241)**

(1) When moving transfers from stage 1 to stage 3 over the period, they moved to stage 2 earlier.

(2) It includes expected loss for granted financial guarantee operations.

11. Non-current assets held for sale and discontinued operations

In order to direct the Group's operations to the retail and product offering segment through its Digital Bank platform, Management, represented by its executive committee (COMEX), opted for the discontinuity of its operating segments. In this context, the Group started the effort to sell Merchant Banking, Corporate Credit Portfolio and Fiduciary Administration of Illiquid Funds. As they are relevant components of the company that represent separate business units (Note 5), they were considered as “discontinued operations”.

a. The main classes of assets and liabilities held for sale are as follows?

	12/31/2020
	Merchant Banking
Cash and cash equivalents	5
Financial Assets	
at fair value through profit or loss - marketable securities	258,376
Other Financial Assets	13,706
Assets not for use, net of impairment	60,740
Income tax recoverable	1
Non-current assets held for sale	**332,828**
Deposits	29
Income Tax and Social Contribution - Deferred [1]	11,809
Other Tax Obligations	1
Liabilities related to non-current assets held for sale	**11,839**

12/31/2019

(All amounts in thousands of reais unless otherwise stated)

	Merchant Banking	Fiduciary Administration	Total
Cash and cash equivalents	-	3	3
Financial Assets			
at fair value through profit or loss - marketable securities	271,540	-	271,540
At amortized cost - marketable securities	30	-	30
Other Financial Assets	15,067	7,371	22,438
Assets not for use, net of impairment	63,544	-	63,544
Other assets	10	1,408	1,418
Intangible assets	-	60,476	60,476
Non-current assets held for sale	**350,191**	**69,258**	**419,449**
Deposits	351	-	351
Other Financial Liabilities	-	13	13
Provisions and Contingent Liabilities	160	-	160
Current Income Tax and Social Contribution - Current	-	468	468
Income Tax and Social Contribution - Deferred (1)	17,552	194	17,746
Other Tax Obligations	-	3	3
Liabilities related to non-current assets held for sale	**18,063**	**678**	**18,741**

(1) Deferred income tax and social contribution are due to the assets market adjustment. Accordingly, when the investments are effectively made, the tax obligations will not be transacted and will be paid by the Bank.

b. The effects on the results of the periods related to the discontinued operation are shown below:

			2020
	Merchant Banking	Fiduciary Administration	Total
Income from interest and similar earnings			
At amortized cost and at fair value through other comprehensive income	-	-	-
Expenses with interest and similar			
At Amortized Cost	(9,648)	-	(9,648)
Result of financial assets and liabilities at fair value through profit or loss	(14,560)	-	(14,560)
Service revenue	201	67,772	67,973
Result in the sale of Credit Operations	-	-	-
Financial assets expected losses			
Credit Operations	-	-	-
Result of financial intermediation and services	**(24,007)**	**67,772**	**43,765**
Personnel expenses	(2,283)	(15,779)	(18,062)
Tax expenses	(13)	(5,104)	(5,117)
General and administrative expenses	(5,318)	(14,118)	(19,436)
Other operating income (expenses)	(459)	(8,498)	(8,957)
Result before taxation	**(32,080)**	**24,273**	**(7,807)**
Income taxes			
Current	11,432	(13,609)	(2,177)
Deferred	3,000	(9,186)	(6,186)
Result with discontinued operations	**(17,648)**	**1,478**	**(16,170)**
Result per share (basic in R$) with discontinued operations			
Common Shares			(255.9276)
Preferred Shares			(256.0670)
Result per share (diluted in R$) with discontinued operations			

Common Shares	(255.9276)
Preferred Shares	(256.0670)

	Merchant Banking	Corporate Credit	Fiduciary Administration	2019 Total
Income from interest and similar earnings				
At amortized cost and at fair value through other comprehensive income	-	22,838	-	22,838
Expenses with interest and similar				
At Amortized Cost	(16,703)	(21,615)	-	(38,318)
Result of financial assets and liabilities at fair value through profit or loss	12,701	733	-	13,434
Service revenue	936	-	57,466	58,402
Foreign Exchange Result and Foreign Exchange Variation of Transactions Abroad	-	-	4,922	4,922
Result in the sale of Credit Operations	-	(2,316)	-	(2,316)
Financial assets expected losses				
Credit Operations	-	21,284	-	21,284
Result of financial intermediation and services	**(3,066)**	**20,924**	**62,388**	**80,246**
Personnel expenses	(2,466)	(4,190)	(11,237)	(17,893)
Tax expenses	(32)	(13)	(4,438)	(4,483)
General and administrative expenses	(2,830)	(10,658)	(20,701)	(34,189)
Other operating income (expenses)	34	(691)	(11,147)	(11,804)
Result before taxation	**(8,360)**	**5,372**	**14,865**	**11,877**
Income taxes				
Current	9,233	7,020	(10,653)	5,600
Deferred	(7,031)	(9,814)	-	(16,845)
Result with discontinued operations	**(6,158)**	**2,578**	**4,212**	**632**
Result per share (basic and diluted in R$) with discontinued operations				
Common Shares				10.5069
Preferred Shares				10.5069

c. The effects on the cash flows of the periods related to the discontinued operation are shown below:

	Merchant Banking	Fiduciary Administration	2020 Total
Cash flows from operations			
Profit (loss) for the year	**(17,648)**	**1,478**	**(16,170)**
Deferred income tax and social contribution	(3,000)	(9,186)	(12,186)
Adjusted net income (loss)	**(20,648)**	**(7,708)**	**(28,356)**
Variations in Assets and Liabilities			
Increase (decrease) in financial assets at amortized cost	1,391	7,371	8,762
(Increase) decrease in financial assets at fair value through profit or loss	30,812	(1,478)	29,334
Increase (decrease) in non-current assets for sale	2,804	-	2,804
Increase (decrease) in other assets	10	559	569
Increase (decrease) in financial liabilities at amortized cost	(322)	(13)	(335)
(Increase) Decrease in deferred income tax and social contribution	(2,743)	8,992	6,249
Increase (decrease) in provisions	(160)	-	(160)
Increase (decrease) in current tax liabilities and other tax obligations	1	(471)	(470)
Net cash provided by operating activities	**10,846**	**7,252**	**18,397**

(All amounts in thousands of reais unless otherwise stated)

Cash flows from investing activities			
Disposal of intangible assets	-	60,476	60,476
Net cash provided by (used in) investing activities	**-**	**60,476**	**60,476**

				2019
	Merchant Banking	**Corporate Credit**	**Fiduciary Administration**	**Total**
Cash flows from operations				
Profit (loss) for the year	**(6,158)**	**2,578**	**4,212**	**632**
Deferred income tax and social contribution	(7,031)	(9,814)	-	(16,845)
Adjusted net income (loss)	**(13,189)**	**(7,236)**	**4,212**	**(16,213)**
Variations in Assets and Liabilities				
Increase (decrease) in financial assets at amortized cost	83,450	263,195	704	347,349
(Increase) decrease in financial assets at fair value through profit or loss	2,338	(2,578)	(4,212)	(4,452)
Increase (decrease) in other assets	(10)	-	(12,484)	(12,494)
Increase (decrease) in financial liabilities at amortized cost	(6,226)	-	6	(6,220)
(Increase) Decrease in deferred income tax and social contribution	20,994	9,814	194	31,002
Increase (decrease) in provisions	160	-	-	160
Increase (decrease) in current tax liabilities and other tax obligations	(81)	-	(742)	(823)
Net cash provided by operating activities	**87,436**	**263,195**	**(12,322)**	**338,309**
Cash flows from investing activities				
Disposal of investments	-	-	-	-
Disposal of intangible assets	-	-	(4,703)	(4,703)
Net cash provided by (used in) investing activities	**-**	**-**	**(4,703)**	**(4,703)**

11.1. Merchant Banking

11.1.1. Proprietary investment funds and private companies shares

a) Breakdown of the investments

	12/31/2020	**12/31/2019**
FIP Novo Hotel Participações	91,738	122,529
FIP KSM Realty	83,503	94,397
FIP Seville	70,819	44,474
FIP Chardonnay	9,656	5,526
FIP BHG	1,459	2,029
Modal Gaia Institucional Imobiliário	-	1,493
FIP Performance	1,200	1,092
FIP Bratus	-	-
Investment funds	**258,375**	**271,540**

In the year ended December 31, 2019, the Bank's Management reaffirmed in its strategic planning the maintenance of assets for sale and aligned the necessary efforts to be taken so that it could successfully dispose of these assets throughout the year. The main sales carried out in the year were as follows:

(All amounts in thousands of reais unless otherwise stated)

In May 2019, disposal of all the CRI of the 85th series of the 4th issue of MRV;

In May 2019, disposal of all the CRI of the 77th series of the 4th issue of Jalles Machado;

For the year ended December 31, 2020, management reevaluated its strategic planning and decided to maintain the remaining assets for sale, thus elaborating a sales strategy for these assets within the following 12 months. However, aspects beyond the control of the entity (Note 37(g)), generated great volatility in the economic environment, and freezing of some market operations. Accordingly, for the year ending December 31, 2021, management reassessed the conditions for each investment and reaffirmed the effort to dispose of them. Comex remains engaged and committed to the settlement of assets and possible strategies adopted in the sales plan for the following year.

b) Evaluation inputs in investments measured at fair value

The most relevant quantitative information for management about unobservable inputs from level 3 financial instruments is as follows:

Direct investment	Indirect investment	Fair value 12/31/2020	Fair value 12/31/2019	Responsible experts(1)	Valuation technique	Non-observable data used in the valuation	Input on 12/31/2020	Input on 12/31/2019
FIP Novo Hotel	Novo Hotel Participações	91,738	122,529	(a)	Discounted cash flow	Discount rate	11.00%	7.20%
FIP KSM	Ícaro	26,117	38,025	(b)	Evolutionary method/discounted cash flow	Discount rate	4.00%	10.00%
	Cachambi	33,000	32,500	(c)	Involutive method/discounted cash flow	Discount rate	8.00%	11.50%
	Extrema	5,953	24,612	(d)	Discounted cash flow	Discount rate	4.50%	7.85%
	City of Lima	9,070	-	(e)	Comparative method of market data/Discounted cash flow	Discount rate	10.00%	-
FIP Chardonnay	Oldenburg	9,656	5,526	(f)	Discounted cash flow	Discount rate	10.90%	9.52%
FIP Seville	Evoltz	70,819	44,474	(g)	Discounted cash flow/method of the assets	Discount rate	Between 7.2% and 7.4% for SPE	Between 9.5% and 10.5% for SPE

a. 12/31/2020 – management expert appraiser and 12/31/2019 - management expert appraiser;
b. 12/31/2020 - management experts and 12/31/2019 - management expert ;
c. 12/31/2020 – management expert and 12/31/2019 - external appraiser;
d. 12/31/2020 – management expert and 12/31/2019 - external appraiser;
e. Appraised by outsourced experts in all the periods;
f. Appraised by management experts in all the periods;
g. Appraised by outsourced experts in both periods.

c) Measure at fair value based on non-observable inputs

Changes in the assets level 3 during the years ended December 31, 2020 and 2019 are as follows:

	Fair Value
Investments balance at January, 2019	**267,723**
Investments	2,317
Adjustment at fair value	12,701
Receipt of earnings	(8,448)
Recognition of losses	(2,753)
Balance of investments on December 31, 2019	**271,540**

(All amounts in thousands of reais unless otherwise stated)

Investments	4,634
Adjustment at fair value	(16,309)
Receipt of earnings	31
Amortization of quotas	(1,521)
Balance of investments on December 31, 2020	**258,375**

d) Sensibility analysis

				12/31/2020
Fund	**Pricing methodology**	**Main non-observable data**	**Sensitivity coefficient (Scenarios)**	**Impact on the investment appraisal**
FIP NH Botafogo	Discounted cash flow	Discount rate	+0.25% -0.25%	-5.45% +6.01%
KSM Realty I FIP - Empreendimento Extrema	Involutive method/discounted cash flow	Discount rate	+050% -0.50%	-1.25% +1.28%
KSM Realty I FIP - Empreendimento Ícaro	Evolutionary method/discounted cash flow	Discount rate	+0.50% -0.50%	-0.33% +0.33%
KSM Realty I FIP - Empreendimento Cachambi	Involutive method/discounted cash flow	Discount rate	+0.50% -0.50%	-0.50% +0.50%
KSM Realty I FIP - Empreendimento Cidade Lima	Method of market data comparison	Discount rate	+0.50% -0.50%	-6.70% +6.51%
FIP Seville	Discounted cash flow	Discount rate	+0.25% -0.25%	-2.58% +2.58%
FIP Chardonnay	Discounted cash flow	Discount rate	+0.50% -0.50%	-3.13% +3.56%

11.1.2. Assets not for use

Assets received as payment are destined for sale, since the entity decides to realize them through a sale or otherwise than the use and perception of cash flows of these assets. Due to the characteristic and nature, all these assets are classified as held for sale. On December 31, 2020 and 2019 , the balances of assets not for use by nature were as follows:

	12/31/2020	**12/31/2019**
Land	10,875	10,975
Residential	3,475	5,928
Commercial	46,240	46,491
Hotel	150	150
TOTAL	**60,740**	**63,544**

Management, as a practice, annually assesses the existence of impairment indicators and hires external appraisers to carry out the appraisal. As a result of the COVID19 pandemic, considered an indication by Management, the Bank carried out the appraisal of its main BNDUs on the base date of July 31, 2020, when it recognized a provision for impairment in the amount of R$ 351. In view of the advance bias in prophylaxis and measures to combat the pandemic in the second half of 2020, management did not identify any signs of impairment and, therefore, did not carry out a new appraisal.

In the appraisal of BNDUs, Modal hires third-party experts who evaluate the ventures based on the comparative method of market prices, with the exception of commercial ventures that are evaluated using the discounted cash flow model. As of December 31, 2020, the discount rate practiced by the appraiser was 8.5%, which is the most sensitive assumption in the assessment.

(All amounts in thousands of reais unless otherwise stated)

The Bank assesses assets not for use, received under guarantee, at the lower of its book value and its fair value calculated based on appraisal reports less selling expenses, without depreciating them. In the year ended December 31, 2020, the Group concluded the sale of assets not for use in the amount of R$ 2,453 (2019 - R$ 36,156). As of December 31, 2020, the Group's management assessed the condition of the assets and remains committed to carrying out the operations by selling the assets included in the portfolio within up to 12 months.

In the year ended December 31, 2020 and 2019, the strategic planning of Banco Modal S.A. forecast the settlement of the Bank's interest in the respective assets not for use. However, aspects beyond the control of the entity, generated great volatility in the economic environment. This volatility scenario associated with the uncertainties generated by the business environment prevented the Bank from being successful in its negotiations to settle these investments.

According to the mentioned above, in the year ended December 31, 2020 and 2019, the Bank's Management reaffirmed in its strategic planning the maintenance of assets for sale and aligned the necessary efforts to be taken so that it could successfully dispose of these assets throughout the year. In the year ended December 31, 2020 and 2019, the Bank sold the following ventures:

Year	Property	Amount
2020	Flat located in Laranjeiras district - Rio de Janeiro	2,453
2019	Land in the Municipality of Viana, in the State of Espírito Santo;	34,833
2019	Hotel units located in the Municipalities of Belo Horizonte, Sete Lagoas and Lagoa Santa, all of them in the State of Minas Gerais;	1,273

Despite the effort of the entity and the substantial settlement concluded during 2019, in view of the efforts to settle the Corporate Credit portfolio (Note 11.2), the Bank absorbed into its portfolio new properties received as payment, as follows:

- In July 2019, apartment located in the Municipality and State of Rio de Janeiro;

- In November 2019, commercial property located in the Municipality of Ceilândia, in the Federal District;

- In November 2019, apartment located in the Municipality and State of Rio de Janeiro.

For the year ending December 31, 2020, management reevaluated its strategic planning and decided to maintain the remaining assets for sale, thus elaborating a sales strategy for these assets within the following 12 months. However, aspects beyond the control of the entity (Note 37(g)), mainly generated great volatility in the economic environment, and freezing of some market operations. Accordingly, for the year ending December 31, 2021, management reassessed the conditions for each investment and reaffirmed the effort to dispose of them. Management remained engaged and committed to the settlement of assets and among the possible strategies adopted in the sales plan for the following year. In addition, according to Note 11.2, the Bank discontinued its Corporate Credit portfolio, there are no expectations that new additions will be made to the assets not for use.

11.2. Corporate Credit

On November 6, 2019, through Instrument of Assignment and Acquisition of Credit Note, management concluded its effort to sell Corporate Credit operations by assigning, without co-obligation, the referred operations in the amount of R$ 249,844 . Of the assigned amount, R$ 36,745 correspond to debentures and certificates of real estate receivables accounted for under financial instruments measured at amortized cost. In this operation, management obtained a gain on the sale, thus reversing the provision for expected loss recorded for the portfolio for the year ended December 31, 2018.

Total credit granting, with no co-obligation, is as follows:

(All amounts in thousands of reais unless otherwise stated)

a) Credit assignment

	2019
Original book value of credit assignment	227,473
Value of credit assignment	225,142
Result of the assignments	**(2,331)**

11.3. Fiduciary Administration

On January 3, 2020, the process of spin-off of the Fiduciary Administration segment of illiquid funds was approved by Bacen and published in the Union's Gazette on January 8, 2020. In October 2020, the creation of MAF DTVM was approved by Bacen, a company that bequeathed this segment.

On October 27, 2020, in a notice to the market, the acquisition of the Fiduciary Administration segment by the Apex Group ("Apex") was announced. The Bank's shareholders and the Apex Group ("Apex") announced this acquisition through the purchase of MAF DTVM, concluding the segment's sale effort. This operation is still being analyzed by the regulation body and the Bank's and Apex's shareholders are still waiting the approval.

As of December 31, 2019, the balance of non-current assets held for sale related to the operations of the fiduciary administration business unit comprised mainly receivables from the investment fund management and goodwill activity arising from the expectation of future profitability arising from the acquisition of the investee MAR. The goodwill arising from the expectation of expected future profitability, as it is an intangible asset with an indefinite useful life, is not amortized, but tested annually to identify possible impairment losses, and on 10/31/2020 (spin-off date), it was recorded by its realization probable amount.

Earnings per share - Discontinued Operations

(i) Earnings per share - basic

Description	Common	Preferred	2020	2019
Number of shares			65,200	62,000
Number of outstanding shares	32,600	31,528	64,128	60,184
Weighted average number of outstanding shares - 2020	32,119	31,046	63,165	-
Weighted average number of outstanding shares - 2019	31,000	29,184	-	60,184
Attributed profit (R$ thousand)			(16,170)	632
Basic earnings per common share (R$)			(255.9276)	10.5069
Basic earnings per preferred share (R$)			(256.0670)	10.5069

(ii) Earnings per share - diluted

Description	Common	Preferred	2020	2019
Number of shares			65,200	62,000
Number of outstanding shares	32,600	31,528	64,128	60,184
Weighted average number of outstanding shares - 2020	32,119	31,046	63,165	-
Weighted average number of outstanding shares - 2019	31,000	29,184	-	60,184
Attributed profit (R$ thousand)			(16,170)	632
Diluted earnings per common share (R$ thousand)			(255.9276)	10.5069
Diluted earnings per preferred share (R$ thousand)			(256.0670)	10.5069

(All amounts in thousands of reais unless otherwise stated)

12. Investments in Associates

On December 31, Modal's interest in its subsidiaries was follows:

							12/31/2020
	Number of shares/quotas held	**Modal interest - %**	**Share capital**	**Equity**	**Profit/ (loss)**	**Carrying amount of the investments**	**Equity in the result of investees**
KSM Desenvolvimento e Negócios Imobiliários Ltda.	6,499,999	99.99%	6,500	(39)	(7)	-	**(23)**
Novus Capital Gestora de Recursos [(1)]	96,250	27.50%	350	29,480	21,559	**2,117**	**2,217**
Total						**2,117**	**2,194**

							12/31/2019
	Number of shares/quotas held	**Modal interest - %**	**Share capital**	**Equity**	**Profit/ (loss)**	**Carrying amount of the investments**	**Equity in the result of investees**
KSM Desenvolvimento e Negócios Imobiliários Ltda.	3.7500000	50.00%	7,500	(31)	(47)	-	**(23)**
Novus Capital Gestora de Recursos	105,000	30.00%	350	7,915	16,338	**2,764**	**2,793**
Total						**2,764**	**2,770**

(1) In the year ended December 31, 2020, Novus Capital Gestora de Recursos (Novus) carried out a disproportionate distribution of dividends in the total amount of R$6,414, being R$1,406 for Modal and the remaining for the entity's controller partners.

13. Property and Equipment

Property and equipment are depreciated on a straight-line basis, as mentioned in Note 2 (l) (ii). These rates represent appropriately the useful life of the assets.

Property and Equipment	**12/31/2019**	**Purchases**	**Write-offs**	**Transfers**	**Depreciation**	**12/31/2020**
Facilities	4,555	-	(2,829)	4,279	(1,785)	4,220
Furniture and equipment of use	2,005	85	(627)	703	(410)	1,756
Communication systems	393	53	(105)	61	(75)	327
Data processing systems	18,377	2,774	(728)	(123)	(5,037)	15,263
Security system	229	-	-	-	(40)	189
Property and equipment in course	1,183	4,110	(373)	(4,920)	-	-
Total property and equipment	**26,742**	**7,022**	**(4,662)**	**-**	**(7,347)**	**21,755**

Property and Equipment	**12/31/2018**	**Purchases**	**Write-offs**	**Transfers**	**Depreciation**	**12/31/2019**
Facilities	4,056	-	-	1,827	(1,328)	4,555
Furniture and equipment of use	1,285	934	(1)	114	(327)	2,005
Communication systems	323	31	-	104	(65)	393
Data processing systems	7,951	9,906	(1)	4,326	(3,805)	18,377
Security system	169	53	-	44	(37)	229

(All amounts in thousands of reais unless otherwise stated)

Property and equipment in course	323	7,275	-	(6,415)	-	1,183
Total property and equipment	**14,107**	**18,199**	**(2)**	**-**	**(5,562)**	**26,742**

14. Right of use of leases

Right-of-use assets and lease liabilities correspond to the rent of floors and commercial rooms of corporate offices. The balances and effects of the recording in the result for the years ended December 31, 2020 and 2019 are as follows:

	12/31/2020	**12/31/2019**
Assets		
Right of use assets - Property and equipment	12,124	16,912
Liabilities and equity		
Lease liability - Other financial liabilities (Note 19)	14,941	19,694

Realization term of the lease liability	**12/31/2020**	**12/31/2019**
Up to 3 months	1,578	836
Between 3 and 12 months	4,847	3,210
More than 1 year	8,516	15,648
Lease liability	**14,941**	**19,694**

Changes in the right of use and in the financial liabilities in the years ended December 31, 2020 and 2019:

Right of use	**2020**	**2019**
At the beginning of the year	**16,912**	**13,762**
New lease agreements	-	7,632
Depreciation of rights of use	(4,788)	(4,482)
At the beginning of the year	**12,124**	**16,912**

Lease liability	**2020**	**2019**
At the beginning of the year	**19,694**	**14,852**
New lease agreements	-	7,632
Appropriation of interest in the year (i)	863	940
Payments done	(5,616)	(3,730)
At the beginning of the year	**14,941**	**19,694**

(i) – This item is also directly impacted by the negotiations and occasional postponement of rental terms made by the Group due to the COVID-19 pandemic, with no contractual changes.

15. Intangible Assets

Intangible assets correspond to expenses with the acquisition and development of software and are amortized using the straight-line method at an annual rate of 20%, as follows:

Intangible Assets	**12/31/2019**	**Purchases**	**Write-offs**	**Transfers**	**Amortization**	**12/31/2020**
Software (1)	9,639	10,316	(833)	8,477	(2,295)	25,304
Concluded projects	19,348	-	(28)	31,223	(7,587)	42,956
Advance of Intangible Assets (2)	18,175	34,761	(77)	(39,700)	-	13,159
Total Intangible Assets	**47,162**	**45,077**	**(938)**	**-**	**(9,882)**	**81,419**

(All amounts in thousands of reais unless otherwise stated)

Intangible Assets	12/31/2018	Purchases	Write-offs	Transfers	Amortization	12/31/2019
Software	11,765	350	(117)	-	(2,359)	9,639
Concluded projects	-	-	-	20,026	(678)	19,348
Advance of Intangible Assets (2)	8,785	29,416	-	(20,026)	-	18,175
Total Intangible Assets	**20,550**	**29,766**	**(117)**	**-**	**(3,037)**	**47,162**

(1) In the year ended December 31, 2020, the Bank acquired software, patents and proprietary domains aimed at generating content in the area of financial investments and prospecting customers in the amount of R$ 8,500.

(2) Referring to projects that are under development within the scope of structuring digital bank products and services. The amortization occurs according to the business plan prepared by management, after the conclusion of the development stage, homologation and tests. The average amortization term of the intangible assets is 5 years. The development is of a unified platform of a digital bank, with several functionalities, controlled in subprojects that come into operation at different times.

16. Other Assets

	12/31/2020	12/31/2019
Other Financial Assets	**318,224**	**224,005**
Negotiation and intermediation of securities (1)	225,899	133,094
Sundry debtors in Brazil and others (2)	38,250	44,080
Restrict investments (3)	33,367	29,643
Revenue receivable	-	7,584
Commissions receivable from structuring	4,056	4,056
Receivables operations structuring (4)	9,562	2,785
Debtors by guarantee deposits	3,094	2,421
Other receivables	372	249
Amounts receivable from related parties	3,624	93
Other Assets	**17,225**	**10,725**
Prepaid expenses (5)	16,982	10,481
Other investments	243	244
Total	**335,449**	**234,730**

(1) 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;

(2) It refers to commissions arising from the provision of services, such as structuring and distributing debentures, financial advisory and distribution of fund quotas;

(3) It refers, substantially, to the amount deposited in an escrow account in the name of Banco Modal, by shareholders of a fund managed by this institution as guarantees on redemptions made by these shareholders in the amount of R$ 33,367 (R$ 29,643 on 12/31/2019). This account will be operated according to the fulfillment of certain obligations provided for in the contract within five years. This same amount is recorded as a restricted deposit in the Liabilities Obligations group;

(4) Comprised of customers' amounts and fund fees receivable from the modalmais funds.

(5) It refers to the services rendered by third-parties paid in advance.

17. Financial liabilities at amortized cost - Funds obtained in the open market

Breakdown	12/31/2020	12/31/2019
Own portfolio (1)	301,688	585,108
Third-parties' portfolio (1)	1,070,953	248,197
Free portfolio movement (1)	39,362	13,813
Housing Credit Bills - LCI	-	13,175
Total	**1,412,003**	**860,293**

Maturity ranges	Up to 180 days	Up to 180 days
Own portfolio (1)	301,688	585,108

(All amounts in thousands of reais unless otherwise stated)

Third-parties' portfolio [1]	1,070,953	248,197
Free portfolio movement [1]	39,362	13,813
Housing Credit Bills - LCI (POS/DI)	-	13,175
Total	**1,412,003**	**860,293**

(1) These operations were practiced at an average rate of 1.9% p.a., 2020. (2019 - 4.3% p.a.).

18. Financial Liabilities at amortized cost - Deposits

a) Breakdown

Breakdown	**12/31/2020**	**12/31/2019**
Demand deposits	801,907	336,457
Interbank deposits	-	1,500
Term deposits	1,290,153	1,061,949
Total	**2,092,060**	**1,399,906**

b) Maturity ranges

					12/31/2020
Maturity ranges	**No maturity**	**Up to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Demand deposits	801,907	-	-	-	801,907
Interbank deposits	-	-	-	-	-
Total	**801,907**	**-**	**-**	**-**	**801,907**

					12/31/2019
Maturity ranges	**No maturity**	**Up to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Demand deposits	336,457	-	-	-	336,457
Interbank deposits	-	1,500	-	-	1,500
Total	**336,457**	**1,500**	**-**	**-**	**337,957**

c) Maturity by indexers - Term deposits

					12/31/2020
Maturity ranges	**No maturity**	**Up to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Pre-fixed (1.13% up to 18.41%	-	8,309	3,933	66,275	78,517
Indexed to CDI rate variation (100%)	-	778,014	228,147	205,475	1,211,636
Total	**-**	**786,323**	**232,080**	**271,750**	**1,290,153**

					12/31/2019
Maturity ranges	**No maturity**	**Up to 180 days**	**From 181 to 360 days**	**After 360 days**	**Total**
Pre-fixed (3.55% up to 19.27%	-	5,701	6,145	19,903	31,749
Indexed to CDI rate variation (100%)	-	331,178	178,223	520,799	1,030,200
Total	**-**	**336,879**	**184,368**	**540,702**	**1,061,949**

19. Other liabilities

	12/31/2020	**12/31/2019**
Other Financial Liabilities	**224,723**	**331,637**
Negotiation and intermediation of securities [1]	144,070	264,553
Restrict deposits [2]	33,367	29,643
Lease liability	14,942	19,694
Social and statutory	17,646	11,484

(All amounts in thousands of reais unless otherwise stated)

Payment orders and third-party funds in transit	11,894	5,111
Result for future years to appropriate	2,332	-
Amounts to contribute to the Credit Guarantee Fund (FGC)	472	283
Commissions of guarantees to appropriate	-	869
Other Liabilities	**36,437**	**16,794**
Personnel expenses	10,571	7,947
Provision for debtor customers	5,489	2,320
Amounts payable - variable remuneration plan	5,381	1,591
Administrative expenses payable	3,600	2,323
Amounts payable to related parties	2,410	55
Other payables	1,280	1,483
Legal advice service (3)	7,706	273
Obligation of transfer of tax credit made (Modal DTVM)	-	802

(1) Obligations arising from relations with the market (system and customers) regarding the trading of securities (securities, shares, assets and financial assets) on their own account and on behalf of third parties;

(2) It refers, substantially, to the amount deposited in an escrow account in the name of Banco Modal, by shareholders of a fund managed by this institution as guarantees on redemptions made by these shareholders in the amount of R$ 33,367 (R$ 29,643 on 12/31/2019). This account will be operated according to the fulfillment of certain obligations provided for in the contract within five years. This same amount is recorded as restricted investments in the Sundry Liabilities group in liabilities and Restricted Investments in assets;

(3) Note 30 (ii).

20. Shareholders' Equity

a) Share capital breakdown

Share capital social is represented by 32,600 common shares (2019 – 31,000) and 32,600 nominative preferred shares (2019 – 31,000), with no par value. Share capital, totally subscribed and paid-in, is represented by:

Year	Total shares	Common	Preferred	Share capital
2020	65,200	32,600	32,600	291,908
2019	62,000	31,000	31,000	345,668

In the year ended December 31, 2020, Banco Modal concluded the partial spin-off for the creation of MAF ("Nova MAF") which gave rise to the capital decrease of Banco Modal in R$70,691, without decrease in the number of common and preferred shares (Note 37 (d)).

In the Extraordinary General Meeting (AGE) of November 30, 2020, it was approved the voluntary conversion of nominative preferred shares, with no par value, into nominative common shares, with no par value. At the same meeting, the company's capital increase was approved by issuing 3,200 nominative preferred shares, with no par value, at the unit issue price of R$ 80,625 (eighty thousand, six hundred and twenty-five reais), being allocated to the composition of the company's capital in the amount of R$ 16,931 and the composition of the company's capital reserve in the amount of R$ 241,069. This operation is awaiting approval by the regulation body.

b) Share rights

The shareholders of the Bank are assured a minimum dividend of 6% of share capital, not to be less than 25% of net income for the year, adjusted in accordance with corporation law. According to the minutes of the Executive Board of December 27, 2019, it was decided and unanimously approved, the non-realization of the distribution of the mandatory minimum dividend provided for in Article 20, §2 of the Company's Bylaws, as authorized by Article 202, § 3, II of the Brazilian Corporation Law, whose approval was ratified at the Ordinary Shareholders' Meeting ("AGO") to be held until April 30, 2020.

(All amounts in thousands of reais unless otherwise stated)

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

According to Law 9,249/95, Article 9, paragraph 7, the amount paid or credited to the shareholders, as interest on capital, can be considered in the calculation of the minimum compulsory dividends.

c) Revenue reserve

- Legal reserve: The legal reserve is constituted at the rate of 5% of the net income determined in each fiscal year under the terms of Article 193 of Law 6,404/76, up to the limit of 20% of the share capital. The Legal Reserve may cease to be constituted when the amount of the Capital Reserves exceeds 30% of the Share Capital. The Legal Reserve can only be used to increase capital or to offset losses.

- Statutory reserve: This reserve is constituted with the remaining balance of adjusted net income, less the distribution of dividends, for the purpose of future incorporation into capital, distribution to shareholders or absorption of accumulated losses; the balance of this reserve, together with the other profit reserves, cannot exceed the share capital, under penalty of capitalization or distribution of the excess.

- Dividends special reserve: Recognized under the terms of paragraph 5 of Article 202 of Law 6,404/76, based on profits not distributed as dividends, which may be absorbed by losses in subsequent years or paid as dividends according to the Bank's financial availability.

d) Other comprehensive income

These are unrealized gains and losses, arising from the adjustment to fair value of securities classified as "financial assets at fair value through other comprehensive income". These gains and losses are transferred to the corresponding statement of operations accounts on the date on which they are effectively realized.

		12/31/2020			12/31/2019	
	Adjustment at fair value	**Tax effect**	**Net amount**	**Adjustment at fair value**	**Tax effect**	**Net amount**
Government bonds	610	(275)	335	324	(135)	189
At December 31	**610**	**(275)**	**335**	**324**	**(135)**	**189**

e) Distribution of dividends and interest on capital

In the years ended December 31, 2020 and 2019, there was no payment of interest on capital

The articles of incorporation of some subsidiaries allow the distribution of disproportionate dividends in favor of the Group's executive minority shareholders. The effect of disproportionate dividends recorded in the subsidiaries' equity affected the result for the years and is consequently reflected in the consolidated statement of operations as other operating expenses.

f) Earnings per share

(i) Earnings per share - basic and diluted

Basic earnings per share are calculated by dividing the profit or loss attributable to holders of common shares by the weighted average of common shares held by shareholders at the balance sheet date. Diluted earnings per share are determined by adjusting basic earnings or losses per share for investments with potential for dilution.

Description	**Common**	**Preferred**	**2020**	**2019**
Number of shares			65,200	62,000

(All amounts in thousands of reais unless otherwise stated)

Number of outstanding shares	32,600	31,528	64,128	60,184
Weighted average number of outstanding shares - 2020	32,119	31,046	63,165	-
Weighted average number of outstanding shares - 2019	31,000	29,184	-	60,184
Attributed profit (R$ thousand)			43,248	46,872
Basic earnings per common share (R$)			684.4968	778.8116
Basic earnings per preferred share (R$)			684.8696	778.8116

Share-based payment plans are settled in cash and do not change the composition of basic and diluted earnings.

g) Treasury shares

The years ended as follows:

Year	Total shares	Shares value	% Share capital
2020	1,072	6,349	2.18%
2019	1,816	10,755	3.11%

h) Equity attributable to non-controlling interest

Equity attributable to non-controlling shareholders is the net equity value attributable to equity instruments that do not belong - directly or indirectly - to the Banco Modal, including the portion of the annual profit attributed to the subsidiaries.

At January 1, 2019	**152,676**
Result for the year attributable to non-controlling interest (2)	9,848
(-) Write-offs (1)	(162,524)
At December 31, 2019	**-**

(1) It refers to the redemptions of quotas from the investment funds Novus Capital Master FI Multimercado on March 15, 2019 and from the funds Novus Macro FIC de FIM and NC Raptor FIRF, both on June 24, 2019. The Modal Group redeemed all the quotas held in these investment funds (Note 3), thus, the Bank did not consolidate them, which, in their turn, had their management transferred to Novus Capital. This transaction did not result in the outflow of resources from the Group.

(2) The result of non-controlling shareholders arises from investment funds consolidated by the Group, which does not have all the shares issued by these funds, as described in Note 3.

21. Assets, Tax Liabilities and Taxes on the Result

a) Income taxes recognized in the year

	12/31/2020	12/31/2019
Income Taxes - Current	**(20,092)**	**(15,720)**
Expense of current year	(22,269)	(26,055)
Discontinued Operations	2,177	10,335
Income Taxes - Deferred	**(1,447)**	**12,571**
Adjustment at fair value of financial instruments	3,542	465
Non-deductible provisions	(1,207)	7,093
Tax Loss	(7,756)	6,420
Presumed basis	431	(223)
Discontinued Operations	4,336	(449)
Adoption of the IFRS standards:	(793)	(735)
IFRS 9 - Financial assets expected loss	(127)	(819)
IFRS 9 - Classification of financial instruments through business model	(682)	(678)
IFRS 16 - Recognition of operating leases	16	762

(All amounts in thousands of reais unless otherwise stated)

Current and deferred income tax	**(21,539)**	**(3,149)**
Taxes paid in the year	(3,529)	(8,819)

b) Current income tax and social contribution

Current tax assets	**12/31/2020**	**12/31/2019**
Taxes to offset:		
COFINS	19,988	19,775
Income tax and social contribution	3,691	97
Taxes withheld at source	1,354	1,758
Others	11,893	9,079
Total	**36,926**	**30,709**

Current tax liabilities	**12/31/2020**	**12/31/2019**
Provision for Taxes and Contributions on Income	13,235	8,335
Taxes and Contributions payable:	10,385	7,750
of third-parties	417	777
on salaries	4,297	3,281
withheld at source of customers	2,839	258
Others	2,832	3,434
Total	**34,005**	**23,835**

c) Deferred income tax and social contribution

Deferred tax assets	**12/31/2020**	**12/31/2019**
On allowance for losses	18,006	14,508
On income tax and social contribution losses	43,054	59,996
On presumed basis	236	-
On market adjustment to offset	4,428	556
Temporary non-deductible provisions	9,511	10,537
Total	**75,235**	**85,597**

Deferred tax liabilities	**12/31/2020**	**12/31/2019**
On adjustment to market value of securities and derivatives	-	148
On adjustment of the future curve	617	734
On presumed basis	-	194
Total	**617**	**1,076**

d) Deferred taxes recognized in the result

	12/31/2019	**Constitution/ (Reversal)**	**12/31/2020**
Related to income tax and social contribution losses	59,996	(16,942)	43,054
Allowance for losses	14,508	3,498	18,006
Adjustment at fair value of securities and derivatives	162	232	394
Market adjustment to offset	556	3,872	4,428
Adjustment of operations in future settlement market	(734)	117	(617)
On presumed deferred	(194)	430	236
Other non-deductible provisions	10,537	(1,026)	9,511
Total	**84,831**	**(9,819)**	**75,012**

(All amounts in thousands of reais unless otherwise stated)

e) Deferred taxes recognized in Shareholders' equity

	12/31/2019	Constitution/ (Reversal)	12/31/2020
Securities adjustments at fair value through other comprehensive income	(310)	(84)	(394)
Total	**(310)**	**(84)**	**(394)**

f) Expectation of realization of Deferred Tax Assets and Liabilities

					2020
Tax realization year	**Temporary differences**	**Tax Loss / Negative basis**	**Total**	**Provision for deferred IR/CS**	**Net deferred taxes**
2021	6,436	4,740	11,176	(617)	10,559
2022	8,045	7,744	15,789	-	15,789
2023	8,045	9,857	17,903	-	17,903
2024	6,436	11,209	17,646	-	17,646
2025	3,218	9,503	12,722	-	12,722
2026	-	-	-	-	-
2027	-	-	-	-	-
Total general	**32,181**	**43,054**	**75,235**	**(617)**	**74,618**
Present value [(1)]	28,059	36,139	64,198	(599)	63,599

[(1)] For the calculation of present value, it was used the DI x Fixed rate disclosed by B3 Bovespa S.A.

					2019
Tax realization year	**Temporary differences**	**Tax Loss / Negative basis**	**Total**	**Provision for deferred IR/CS**	**Net deferred taxes**
2020	8,626	1,278	9,904	(1,076)	8,828
2021	4,254	10,189	14,443	-	14,443
2022	7,966	17,706	25,672	-	25,672
2023	2,802	21,529	24,331	-	24,331
2024	1,952	9,294	11,246	-	11,246
2025	-	-	-	-	-
2026	-	-	-	-	-
Total general	**25,601**	**59,996**	**85,597**	**(1,076)**	**84,521**
Present value [(1)]	21,210	44,967	66,177	(1,010)	65,167

[(1)] For the calculation of present value, it was used the DI x Fixed rate disclosed by B3 Bovespa S.A.

g) Reconciliation of tax rates

The total charges for the year may be conciliated with the accounting profit as follows:

	2020	2019
Result before Taxation	64,787	50,021
Rate (25% of income tax and 20% of social contribution)	**(29,154)**	**(22,509)**
Deduction of income tax and social contribution losses	5,494	-
Non-taxable/non-deductible adjustments		
Profit sharing	2,737	2,039
Equity in the results of investees	9,336	9,565
Provision Contingent Fine	(7,139)	-
Provision for credit risk	5,255	(2,284)

(All amounts in thousands of reais unless otherwise stated)

Phantom Stock Option	(941)	-
Tax incentives	98	-
Results with incentivized debentures	1,940	1,740
Other permanent additions (exclusions)	(1,518)	(2,187)
Other temporary additions (exclusions)	(3,372)	(3,418)
Temporary differences		
Adjustment to market value of securities and derivatives	3,700	712
Other temporary differences	(10,136)	15,501
Other adjustments	2,161	(2,308)
Income taxes	**(21,539)**	**(3,149)**
Current	(20,092)	(15,720)
Deferred	(1,447)	12,571

22. Provisions and contingent liabilities

Contingent liabilities arising from litigations or notifications from supervisory entities are evaluated by management with the support of the Bank's legal advisors, considering the concepts defined in IAS 37/CPC 25 and recognized in the financial statements, when the risk of loss is considered probable in a lawsuit or administrative proceeding, giving rise to a probable outflow of funds for the settlement of obligations and when the amounts involved are measurable with sufficient security. For the lawsuits whose evaluation of loss is considered possible, no accounting provision is recognized, however, disclosed in note to the financial statements. In the case when the chances of loss are considered remote, no provision is recognized and no disclosure is made in a note.

The Bank is a party to lawsuits and administrative proceedings arising from the normal course of operations, involving tax matters among others.

Based on information from its legal counsel and an analysis of the pending legal proceedings, management recorded a provision in an amount considered sufficient to cover the estimated losses expected in connection with ongoing litigation.

In accordance with IAS 37/CPC 25, the bank constitutes a provision for labor, tax and civil claims with a probable loss risk, quantified using individualized or mass methodology, according to the nature and/or value of the suit.

a) Contingent assets

Contingent assets are recognized in the financial statements only when there is certainty of collection or that unappealable favorable court decisions have been obtained. No contingent assets were recognized in the financial statements, related to the years ended December 31,2020 and 2019.

b) Labor claims

The contingencies are related to suits in which alleged labor rights are discussed, related to specific labor legislation in the professional category, such as overtime, salary equalization, reinstatement, transfer allowance and others.

On December 31, 2020, the Bank had provision for labor contingencies in the amount of R$ 1,202 (12/31/2019 – R$ 1,771), considered enough to cover the potential amount for loss in these suits, according to the analysis of legal advisors hired for the mentioned suits.

c) Tax lawsuits

Modal is subject, in inspections carried out by the tax authorities, to questions regarding taxes, which may eventually generate assessments, such as: composition of the income tax and social contribution calculation base (deductibility); and discussion about the incidence of taxes, when certain economic facts occur.

Modal and its subsidiaries are a party to lawsuits and administrative proceedings arising from the normal course of operations, involving tax matters among others. Modal and its subsidiaries are a party to lawsuits and administrative proceedings arising from the normal course of operations, involving tax matters among others.

d) Civil lawsuits

They basically refer to lawsuits for damages, the nature of which are: challenge of the total effective cost of the agreements entered into; review of contractual conditions and charges; and tariffs.

The provision for individual civil cases, suits with peculiar characteristics, is carried out periodically, based on the determination of the risk value and the likelihood of loss. The provision for mass civil suits is carried out periodically using the average loss recorded over time and applied to the base of active suits as a parameter. The amounts considered as probable loss are object of accounting provision. On December 31, 2020, the provision constituted for claims of this nature was of R$ 17 (2019 - R$ 35).

e) Contingent liabilities classified as possible loss

For the lawsuits whose evaluation of loss is considered possible, no accounting provision is recognized, however, they are as follows:

(i) Labor

On December 31, 2020 and 2019, Modal had no labor claims classified as possible.

(ii) Tax

- Profit sharing: In March 2016, the Secretariat of the Federal Revenue of Brazil ("SRF") filed a Tax Assessment Notice to demand, with the addition of an official fine and interest on late payment, social security contributions (GIRAT) and contributions destined to third parties (INCRA and FNDE) , allegedly levied on payments made by Modal to its employees as profit sharing ("PLR"), in January 2012 and July 2012, referring to the second half of 2011 and the first of 2012, respectively. On April 14, 2016, Modal filed a challenge to the Tax Assessment Notice, which was dismissed on December 27, 2017 and it is currently in the CARF (Administrative Council for Tax Appeals), awaiting judgment on the Voluntary Appeal. The updated amount of the suit, classified as possible loss, is of R$ 6,018 (12/31/2019 - R$ 5,920).

- COAF - Financial Activities Control Council; The Central Bank of Brazil ("BCB") has filed an administrative proceeding in order to ascertain any lack of Modal regarding the duty to report on transactions carried out by one of its customers. The administrative proceeding ended with the BCB imposing a fine of R$ 200 to Modal and R$ 20 to its officer, a decision from which we appealed to the Minister of Finance. On this occasion, the Financial Activities Control Council ("COAF") was called upon to express its opinion, increasing the fine imposed on Modal to R$ 15,800 and to its officer to R$ 100, in addition to suggesting its disqualification for a period of 5 years. In violation of the principle of prohibition of *reformatio in pejus*, the Minister of Finance accepted the COAF's opinion, increasing the sanctions. Against this decision, Modal filed an action for annulment that is currently in the Superior Court of Justice awaiting judgment. Modal's theses ins grounded on the following allegations: (i) prohibition of *reformatio in pejus*, (ii) absence of illegality in the BCB's administrative decision that justified the increase of fines by the higher hierarchical authority; and (iii) lack of reasonableness and proportionality in the increase applied.

(All amounts in thousands of reais unless otherwise stated)

The updated amount of the case amounts to R$ 40,198 as of December 31, 2020 (12/31/2019, R$ 39,834), including monetary restatement, fine and defeated party's fees. In the context of tax enforcement, as a guarantee of execution, Modal indicated 4,510 LFTs totaling R$ 48,771 on December 31, 2020 (12/31/2019, R$ 42,731). At the current stage, our legal advisors classify the risk as possible loss.

In the year ended December 31, 2020, the Central Bank requested the constitution of provision in the amount if R$ 15,863, against the prognosis of the legal advisors. Management performed the accounting in its local books recognizing the regulator's discretion. In order to adapt these financial statements to the accounting practices in force determined by CPC 25/ IAS 37 that determine the recognition of the provision only for suits classified as probable, these financial statements were adjusted and do not reflect the constitution of this provision.

(iii) Civil

Banco Modal ("Modal") is a party to legal proceedings, involving discussions 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 and this type of suit. Therefore, due to the nature of these suits and the history, still recent, of the outcome of these suits, we have chosen to use the historical average as the basis for constituting a provision for contingency, on the inventory of existing suits on December 31, 2020. Currently, the bank is a party to lawsuits that are at different stages and, based on the history of success, conviction or signed agreements, we recorded a provision of R$ 38 in liabilities on December 31, 2020 (12/31/2019 - R$ 83).

(vi) Value of the possible suits

	12/31/2020	12/31/2019
Labor claims	-	-
Tax lawsuits	46,216	45,754
Civil lawsuits	-	-
Total	**46,216**	**45,754**

f) Provisions by nature

	12/31/2020	12/31/2019
Labor claims	1,202	1,771
Tax lawsuits	220	220
Civil lawsuits	38	83
Total	**1,460**	**2,074**
Guarantee Deposits	2,097	1,555

g) Changes in the provisions for contingencies

	Labor	Tax	Civil
At 1/1/2019	**1,659**	**220**	**-**
Constitution/ (Reversal)	2,549	-	83
Payments	(2,437)	-	-
At 12/31/2019	**1,771**	**220**	**83**

	Labor	Tax	Civil
At 12/31/2019	**1,771**	**220**	**83**
Constitution/ (Reversal)	1,339	-	(28)

(All amounts in thousands of reais unless otherwise stated)

Payments	(1,908)	-	(17)
At 12/31/2020	**1,202**	**220**	**38**

23. Income (expenses) with interest and similar

	12/31/2020	12/31/2019
Revenue with interest and similar	**104,087**	**115,662**
Credit Operations	6,804	6,824
Revenue from committed operations	29,336	44,173
Earnings from government securities	35,317	56,165
Earnings from private securities	32,597	8,483
Others	33	17
Expenses with interest and similar	**(65,303)**	**(100,033)**
Term deposits	(26,809)	(45,463)
Expenses with committed operations	(35,336)	(49,230)
Contributions to FGC	(2,206)	(1,743)
Update of the lease liability	(863)	(940)
Funds obtained in the open market	(21)	(2,613)
Others	(68)	(44)
Income (expenses) with interest and similar	**38,784**	**15,629**

24. Result of financial assets and liabilities at fair value through profit or loss

	12/31/2020	12/31/2019
Adjustment of fair value and disposal of marketable securities	**(444)**	**26,685**
Government bonds	(1,866)	(4,599)
Private securities	1,967	16,131
Investment funds	453	15,006
Shares	(998)	100
Others	-	47
Result from derivative financial instruments	**89,173**	**28,973**
Swap contracts	340,840	(91,693)
Forward market	82,943	32,616
Future market	(334,853)	87,770
Options	260	240
COE	(17)	40
Result of financial assets and liabilities at fair value through profit or loss	**88,729**	**55,658**

25. Service revenue

	12/31/2020	12/31/2019
Revenue from bank rates and stock brokerage rates	134,111	98,839
Commission for consultancy and structured operations	36,186	48,571
Other service revenues e	12,065	8,708
Revenue from guarantees given (pledges)	3,062	5,265
Revenue from payment services	267	-
Total	**185,691**	**161,383**

(All amounts in thousands of reais unless otherwise stated)

26. Foreign exchange result and foreign exchange variations of transactions abroad

	12/31/2020	12/31/2019
Variations and differences of taxes	(4,184)	3,351
Foreign exchange variation of available funds	37,358	13,244
Other exchange variations	(1,761)	271
Total	**31,413**	**16,866**

27. Other operating income (expenses)

	12/31/2020	12/31/2019
Other operating income	**12,989**	**2,854**
Interest on credit granting	214	514
Monetary update on the tax credits	303	447
Investments abroad	135	422
Reversal of operating provisions	400	-
Incentive income stock exchange (1)	4,774	-
Other income (2)	7,163	1,471
Other operating expenses	**(14,202)**	**(12,152)**
Operating losses (3)	(2,759)	(3,671)
Other provisions	-	(2,320)
Amortizations Platform Modal	-	(1,649)
Variable remuneration program	(3,826)	(1,106)
Other expenses (4)	(7,617)	(3,406)
Other operating income (expenses)	**(1,213)**	**(9,298)**

(1) Revenue resulting from the incentive received by brokers by B3 for the volume of operation of clients on the stock exchange.

(2) Substantially composed of interest and exchange variation arising from amounts receivable and gains on the sale of investment interests.

(3) Substantially composed of errors in executing orders caused by system unavailability or operational errors.

(4) Composed of brokerage reversals, low margin accounts and ATM withdrawal expenses.

28. Personnel expenses

	12/31/2020	12/31/2019
Salaries and grant aid	53,169	32,362
Profit sharing of employees and managers	18,236	9,699
Benefits	13,160	9,108
Social charges	15,973	8,941
Training	80	375
Total	**100,618**	**60,485**

29. Tax expenses

	12/31/2020	12/31/2019
Contribution for the social security financing	13,888	8,984
Service taxes	5,993	4,589
Income tax withheld at source	2,067	1,899
Contribution to the social integration program	2,324	1,495
Tax on financial operations	1,182	156
Others	105	81
Total	**25,559**	**17,204**

(All amounts in thousands of reais unless otherwise stated)

30. Other administrative expenses

	12/31/2020	12/31/2019
Data processing **(i)**	49,495	43,644
Advertising	16,776	15,941
Depreciation and amortization	21,713	11,376
Specialized and third-party technical services **(ii)**	19,668	10,853
National financial system services	27,393	11,598
Communication	6,118	4,511
Trips in the country and abroad	580	2,464
Promotions and public relations	586	1,631
Clearing records	3	2,041
Philanthropic contributions	837	880
Distribution commission	258	790
Financial system services abroad	1,351	774
Maintenance and conservation of assets	425	287
Rentals, IPTU and condominium	1,347	220
Others	3,173	3,158
Total	**149,723**	**110,168**

(i) Data processing expenses refer substantially to software that automates the broker's operations and includes contracting platforms, simulators and live rooms (digital influencers), which are made available to customers for acquisition.

(ii) The increase is substantially due to the provision for the payment of successful attorney's fees in the amount of R$ 7,500, arising from contingencies whose favorable final decision occurred on December 18, 2020.

(All amounts in thousands of reais unless otherwise stated)

31. Related-party Transactions

a) Related-party transactions

Transactions between parties related to Modal are carried out at values, terms and average rates usual in the market, in force on the respective dates, under conditions of commutation and in accordance with the legal provisions in force and with IAS 24/CPC 05 (r1) and are presented as follows:

			Assets / (Liabilities)		Income / (Expenses)	
	Relation level	Maturity	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Assets						
Other Credits – sundry						
Novus Capital Gestora de Recursos Ltda.	Associate	1/22/2021	1,949	-	-	-
- Modal Participações Ltda.	Associate	12/31/2021	355	26	-	-
- MRE Desenv. e Neg. Imobiliários Ltda.	Associate	12/31/2021	39	39	-	-
- Modal Holding Controle	Associate	12/31/2021	90	1	-	-
Credit operations						
- Key management		10/27/2025	4,613	3,219	289	194
- Modal Participações Ltda.	-	12/19/2022	10,798	-	-	-
Derivative Financial Instruments						
- Key management		No maturity	-	2	23	-
(Liabilities)						
Demand deposits						
- Modal Participações Ltda.	Associate	No maturity	(2)	(2)	-	-
- Bastad RJ Participações Ltda.	Associate	No maturity	(9)	(4)	-	-
- SPE Incorporadora Condado Di Alphaville Ltda.	Associate	No maturity	(1)	(2)	-	-
- DAL Participações Ltda.	Associate	No maturity	-	(10)	-	-
- DFB Brasil Participações Ltda.	Associate	No maturity	(4)	-	-	-
- DFL Industria e Comercio S/A	Associate	No maturity	(1)	-	-	-
- Icaro AG7 1 Spe Empreend Imobiliários Ltda.	Associate	No maturity	(38)	(506)	-	-
- Lund RJ Participações Ltda.	Associate	No maturity	(19)	(36)	-	-
- MD Realty I Participações S.A	Associate	No maturity	(5)	(5)	-	-
- Novo Hotel Participações S.A	Associate	No maturity	(1)	(4)	-	-
- Opal Participações S.A	Associate	No maturity	(4)	(2)	-	-
- Performance Katrina Empreend Imobiliários S/A	Associate	No maturity	(212)	(3)	-	-
- Performance Opalina Adm de Hotéis Ltda.	Associate	No maturity	-	(4)	-	-
- X3 Real Estate Imobiliária e Participação Ltda.	Associate	No maturity	-	(2)	-	-
- Key management		No maturity	(2,060)	(866)	-	-
Term deposits						
- Modal Participações Ltda.	Associate	12/4/2023	(2,015)	(13,429)	(112)	(211)
- SPE Incorporadora Condado Di Alphaville Ltda.	Associate	11/10/2023	(467)	(489)	(12)	(43)
- DFB Brasil Participações Ltda.	Associate	10/21/2021	-	-	(4)	(3)
- Icaro AG7 1 Spe Empreend Imobiliários Ltda.	Associate	12/12/2023	(1,369)	-	(18)	(43)
- MD Realty I Participações S.A	Associate	12/8/2023	(13,433)	(693)	(252)	(240)
- Performance Opalina Adm de Hotéis Ltda.	Associate	8/25/2022	-	(220)	(5)	(4)
- X3 Real Estate Imobiliária e Participação Ltda.	Associate	1/2/2024	(12,587)	(6,954)	(237)	(107)
- Key management		12/29/2023	(2,466)	(1,388)	(77)	(92)
Housing Credit Bills						
- Key management		-	-	-	-	(19)
Derivative Financial Instruments						
- Key management		-	-	-	-	(136)

(All amounts in thousands of reais unless otherwise stated)

On November 6, 2019, by means of a credit card assignment and acquisition agreement and other covenants, the Bank assigned credit operations from its remaining Corporate Credit portfolio, without co-obligation, to an associate company, in the amount of R$ 249,844 for the amount of R$ 247,365, resulting in a loss of R$ 2,479, which was already fully provided for in the result.

b) Key management remuneration

Every two years, at an Annual Shareholders' Meeting, the maximum monthly remuneration for all the Managers is established, in accordance with the provisions of the Bylaws. Remunerations and benefits granted to managers in the years are as follows:

	12/31/2020	**12/31/2019**
Salaries	5,684	6,907
Social charges	1,979	2,240
Total	**7,663**	**9,147**

c) Interest

As of December 31, 2020, key management jointly holds, directly and indirectly, 90.98% (2019 - 98.66% and 01/01/2018 - 99.25%) of the common and preferred shares of Modal. Key management did not receive dividends from Banco Modal for the years ended December 31, 2020 and 2019, but the equity holdings of Modal's subsidiaries key management held in those years resulted in a receipt of dividends in the amount of R$ 11,247 (2019 - R$ 11,133).

32. Employee benefits

Aligned with the best market practices, Modal offers social benefits to its employees, among them: (a) Medical Assistance; (b) Dental Assistance; (c) Life Insurance; (d) Meal Vouchers (e) Food Vouchers and (f) Profit Sharing.

The expenses with benefits in the year ended December 31, 2020 represented R$ 13,160 (2019 - R$ 9,108).

a) Variable remuneration program – *Phantom Stock Option*

Modal, as from 2017, created a Stock Option Program in the "Phantom Shares" modality. The plan consists of compensation with cash payment, however, there is no effective delivery of shares, since there will be no delivery of shares to settle the plan. Up to the year ended December 31, 2020, four plans were structured. These amounts are recorded as a provision payable, with a corresponding entry in the result for the year, based on the fair value of the Phantom Shares granted and the vesting period. The fair value of this liability is reviewed and updated at each reporting period, according to the variation in the fair value of the benefit granted and the acquisition of the right to exercise.

The options issued require an acquisition period of 4 years and can only be exercised if the beneficiary remains in the company for the entire period (vested in full), with the exception of employees terminated at the initiative of the Bank and without justified reason The exercise price must be equal to the lower price of equity of Banco Modal S.A. at the exercise date of each option. The estimated volatility was calculated based on the historical volatility of bank shares similar to Banco Modal in size and operations listed on the stock exchanges in Brazil and abroad.

On December 31, 2020, the fair value estimated by management was of R$ 5,381 and R$ 2,960, net of taxes. The provision will be adjusted in subsequent periods to the extent that the permanence periods provided for in the Option Programs are fulfilled.

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

(All amounts in thousands of reais unless otherwise stated)

				Programs
	2017	**2018**	**2019**	**2020**
Exercise price (Parent company's equity)	661,342	661,342	661,342	661,342
Duration up to the exercise (years)	1	2	3	4
Risk-free rate	3.30%	5.00%	6.12%	6.77%
Expected Annualized Volatility [1]	43.50%	43.50%	43.50%	43.50%
(Parent Company) Equity at the grant date	363,844	363,844	363,844	363,844
Granting percentage	0.29%	0.09%	0.09%	0.46%
Base value for granting on the maturity	**1,055**	**655**	**655**	**8,514**

(1) Pursuant to paragraph B29 of IFRS2/CPC10, volatility is determined based on the historical volatility of similar entities listed, for which information on share prices is available.

In the year ended December 31, 2020, the Bank amended the current plans that came into force with the same characteristics (Spot price and Strike).

The changes in the payment plan based on phantom shares are as follows:

	Percentage of stock options granted	Number of shares
At January 1, 2019	**2.75**	**1,705**
(+) Granted	2.00	1,240
(-) Canceled	(0.30)	(186)
(-) Paid	(0.10)	(62)
At December 31, 2019	**4.35**	**2,697**
(+) Granted	2.55	1,577
(-) Canceled	(0.75)	(465)
(-) Converted	(2.40)	(1,488)
(-) Paid	(0.60)	(372)
At December 31, 2020	**3.15**	**1,949**

33. Financial guarantees granted

	12/31/2020	12/31/2019
Sureties or guarantees in tax lawsuits and administrative proceedings	65,276	134,316
Other bank guarantees	4,177	29,565
Financial guarantees granted	**69,453**	**163,881**
Provision for expected losses [1]	(1,233)	(3,364)
Financial guarantees granted, net of expected losses	**68,220**	**160,517**

(1) The financial guarantees granted to our customers are valued for the purpose of expected losses, in accordance with IFRS 9/CPC 48 (Note 3.e and Note 10).

34. Financial and operating risks management

The management of operational risks is carried out using internal policies by multidisciplinary teams, independent of the Bank's business areas, which monitor the various risks inherent to the operations and/or processes, which include market risk, liquidity risk, credit risk and operational risk.

This management structure allows the identification and measurement of possible impacts and solutions to guarantee the continuity, permanence and quality of the business of Modal and its subsidiaries.

In order to guarantee the anticipation of eventual changes caused by scenarios and/or market situations that may result in the realization of the identified risks, Modal and its subsidiaries adopt a proactive and conservative stance in risk management, considering mainly the strategic objectives of Modal and its controlled companies, anticipating possible changes, in addition to mitigating actions focused on their exposures, mapping their deficiencies through a survey of processes, respecting the limits established in their policies and in the relevant legislation. Modal adopts the following definition in the risks management:

(All amounts in thousands of reais unless otherwise stated)

34.1. Credit risk

Credit risk refers to the possibility of losses related to the non-compliance, by the borrower or counterparty, of its financial obligations as agreed, as well as the devaluation of the credit agreement resulting from the deterioration in the borrower's risk classification, the reduction of gains or remunerations, benefits granted to renegotiation, recovery costs and other amounts related to the non-compliance with the financial obligations of the counterparty with Modal.

The Group has a policy for granting credit whereby procedures for the assessment of clients and counterparties are established. An assessment of each client or counterparty is made prior to realizing operations and includes objective analyses of financial data, comparative ratios, cash flow, working capital, interest rate coverage and quality of the guarantees provided, as well as subjective analyses including of data regarding the economic sector, regulatory environment and market share. The limits are approved by the Credit Committee and are regularly reviewed together with the sufficiency of the guarantees provided.

Exposures to this type of risk exist mainly in financial investments, credit operations, government bonds, debentures and other receivables. The Group has a policy for granting credit whereby procedures for the assessment of clients and counterparties are established. An assessment of each client or counterparty is made prior to realizing operations and includes objective analyses of financial data, comparative ratios, cash flow, working capital, interest rate coverage and quality of the guarantees provided, as well as subjective analyses including of data regarding the economic sector, regulatory environment and market share. The limits are approved by the Credit Committee and are regularly reviewed together with the sufficiency of the guarantees provided.

a) Measurement of the credit risk

The operations included in the categories of credit operations and other credits are analyzed individually through risk classification models developed internally. Modal has its own scale for assigning risk ratings, just as it is carried out by rating agencies. However, a specific classification is used, which is equivalent to the scale of the local regulatory agency.

The levels of classification are monitored and updated whenever necessary. Management regularly validates the performance of the rating and its predictive power in relation to default events.

b) Maximum exposition to the credit risk

The following table presents the maximum exposure do credit through the carrying amount of the financial assets and the "Off-balance" balances for the years ended 2020 and 2019.

	12/31/2020	12/31/2019
Available funds	283,587	30,720
Investments in the open market	1,773,878	471,753
Financial assets at fair value through other comprehensive income – TVM	892,544	956,791
Financial assets at fair value through profit or loss	335,712	506,395
Financial assets at fair value through profit or loss - derivative financial instruments	87,257	18,570
Assets Carried at Amortized Cost	453,017	445,409
Off-balance	88,559	164,286
Sureties and balances	69,453	163,881
Credits to release	19,106	405
Total maximum exposition to the credit risk	**3,914,681**	**2,593,924**

(All amounts in thousands of reais unless otherwise stated)

c) Control of risk limit and mitigation policies

Modal manages, limits and controls concentrations of credit risk whenever they are identified, particularly in relation to counterparties and individual groups, as well as in sectors of the economy.

Management structures the levels of risk it assumes, setting limits on the extent of acceptable risk with respect to a specific debtor, groups of debtors and industry segments. These risks are monitored on a rotating basis and subject to annual reviews or whenever necessary. The limits on the level of credit risk by product and industry sector are regularly approved by the Modal's Credit Committee.

Exposure to credit risk is also managed through regular analysis of borrowers, both actual and potential, for payments of principal and interest, and changing limits where appropriate.

One of the practices designed to mitigate credit risk is to take guarantees on the release of funds.

d) Provision for expected loss

The calculation of expected credit losses for financial assets is performed according to the characteristics of each type of operation, considering the quality and current characteristics of customers and operations, including their guarantees. In assessing the expected loss, macroeconomic factors and rollover projections were also considered, which incorporate the current and prospective effects of economic variables in the loss estimates.

In accordance with IFRS 9/CPC 48, the provisions for expected losses will be measured according to the following methodologies:

- Credit losses expected for 12 months: result from possible default events within the next 12 months; and

- Credit losses expected to last a lifetime: result from all possible events of default over the expected life of a financial asset.

The change in methodology for expected losses of 12 months for the entire life of the financial asset is carried out when there is a significant increase in credit risk on the report date in relation to its initial recognition. The Institution may determine that the credit risk of a financial asset has not increased significantly, when it remains classified as low credit risk at the reporting date.

e) Credit quality

Through the credit stage classification carried out in accordance with IFRS 9/CPC 48, it was possible to calculate the percentage of exposure of the credit portfolio by risk level:

Evaluation	12/31/2020	12/31/2019
Write-off	16.2%	13.9%
Average	26.6%	0.5%
High	57.2%	85.7%

f) Guarantees:

In all cases, the guarantees of the operations are observed as ancillary and, therefore, are not the main reason for granting credit. The level of guarantees required is related to the risk of the customer and of the operation. The credit granting process is structured as follows for one of the main activity segments.

The classification of the rating occurs at the moment a credit is evaluated. The classification model takes into account quantitative and qualitative information obtained from the customer, technical visits and market research, with customers, suppliers and competitors. Based on the client's rating, a rating of the operation is defined, which takes into account the guarantees involved.

34.2. Market risk

The national and international market conditions may affect the market, resulting in changes in the interest and foreign exchange rates, in the prices of shares and inflation indicators, resulting in variations in the prices of the assets in general. These variations may affect the Modal's performance. The decrease or increase in prices of assets that make up part of the portfolio may be temporary, not existing, however, guarantees that they will not extend for long and/or undetermined periods. When using derivative operations, the market risk may be increased through directional trading and leverage or reduced through hedge transactions. There is also the risk of temporary distortion of the derivative result and its underlying asset for hedge operations due to mark-to-market, which may generate distortions in Modal's result, as is the case with dollar exposure, interest rates and coupon IPCA.

Market risk management for operations is carried out through control policies and limits defined by a Risk Committee, formed by senior management and the risk area, which is totally independent from Modal's business areas. Every day, reports with the calculation of the Value at Risk (VaR), through “Monte Carlo” simulation or through the parametric method, market stress tests and the exposure presented by the portfolio to the main risk factors are disclosed. Periodically, tests are carried out to validate the employed calculation methodology ("back test") and simulation of historical crises to evaluate the leverage used.

The bank maintains its own treasury in order to meet the specific needs of its customers and to protect itself from market risks, considering interest rate risk as subcategories; exchange variation, share prices and commodity prices. All positions taken at any rate or index are controlled by the treasury department and monitored by the risk area and, therefore, use derivative instruments or other assets.

a) Methodology

(i) Value-at-Risk (VaR)

VaR measures the worst expected loss across a horizon given under normal market conditions at a given level of confidence, i.e., VaR provides a measure of market risk.

Market risk management uses VaR as a measure of potential loss in portfolios. For the calculations, the parametric model is used for the one-day horizon and 95% confidence interval. The entire calculation is based on market closing prices, obtained from different sources (Anbima, B3, Banco Central, among others). VaR analyses are carried out by market, vertices and by risk factor associated with the interest curve, stock prices, foreign exchange and commodities. If the VaR limit is exceeded, an evaluation of the operations will be carried out and those that present the greatest risk must be readjusted by the Treasury in order to reduce the risk and seek to comply with the maximum exposure limit. Market liquidity should be assessed when readjusting these operations.

(ii) Stress tests

They can be historical scenarios, representing the effects of crises that have occurred, or hypothetical scenarios. Such scenarios should take into account the variation of prices in an adequate period of time to consider both the accumulated effect of shocks, as well as that necessary for the reversal or hedge of risk positions. It is allowed taking into account extreme but feasible events, which would be at the tail of the return distribution curves, as this is disregarded in the calculation of VaR.

b) Sensibility analysis

The use of VaR is a measure of the potential loss in financial instruments due to adverse movements in the market over a defined time horizon with a specified level of confidence. Along with the stress test, VaR is used to measure the exposure of our financial instruments to market risk, even though the objective of the Sales and Trading (“S&T”) table, is exclusively arbitrage and zeroing the customer, without directional exposures. The accuracy of the market risk methodology is tested through back-tests that compare the adherence between VaR estimates and realized losses.

The VaR shown below was calculated for the one-day period and a 95% confidence level. A confidence level of 95% means that there is the possibility of one in twenty occurrences that the result of a single trading day is greater than the VaR presented. It is expected and forecast to occur, on average, about once a month. Given its reliance on historical data, the accuracy of VaR is limited and its ability to predict unprecedented market changes, as historical distributions in market risk factors, may not produce accurate estimates of future market risk. As previously mentioned, we use stress tests as a complement to VaR in our daily risk activities.

(i) VaR 1 day / 95% I.C.

In thousands of reais	VaR	VaR Limit	% of Occupation	VaR (% of equity)
12/31/2020	174	500	34.78%	0.04%
6/30/2020	168	500	33.60%	0.04%
3/31/2020	264	500	52.70%	0.07%
1/31/2020	75	500	15.00%	0.02%
12/31/2019	177	500	35.40%	0.05%
6/30/2019	201	500	40.20%	0.06%
12/31/2018	480	2,500	19.20%	

(ii) VaR by type of risk

In R$	12/31/2020 Marginal VaR (parametric)	Marginal VaR (%)	12/31/2019 Marginal VaR (parametric)	Marginal VaR (%)
SELIC/CDI	127	0.07	(97)	(0.05)
PRÉ	25,327	14.57	27,146	15.35
IPCA	22,395	12.88	9,950	5.63
IGPM	-	-	119,136	67.37
On shore shares	20,938	12.04	-	-
On shore currencies	35,816	20.60	4,005	2.26
On shore foreign exchange coupon	69,273	39.84	14,431	8.11
Others	-	-	2,356	1.33
Total	**173,876**	**100**	**176,927**	**100**

(Iii) BM&F Stress Testing

The BMF stress test is carried out based on the stress scenarios BM&F makes available. The Risk Area classifies BMF shocks in optimistic and pessimistic scenarios, thus forming two stress scenarios with macroeconomic reasons and which are based on an external source of credibility. For assets that are not present in the disclosed scenarios, the shock of a BMF scenario in which the asset in question has a similar nature is chosen. The Bank's positions will be reassessed under the "Full Valuation" method, based on the scenarios generated.

Additionally, in order to complement the BMF stress scenario, which has a low probability scenario, the Risk Area calculates the "worst case of the current portfolio in the last 5 years" Stress scenario. Thus, all exposures of the bank's portfolio at the time of calculation are replicated in risk factors and, based on their daily return in the last 5 years, the daily value of the portfolio in this period is reassessed. Finally, the indicator shows the worst daily change in the portfolio's value in this series.

In thousands of reais	Worst case in the last 5 years	BM&F Stress	Scenario Direction Stress	Contributio n Stress

(All amounts in thousands of reais unless otherwise stated)

12/31/2020	(1,604)	(3,619)	Optimistic	(3,619)
6/30/2020	(2,440)	(2,286)	Pessimist	(2,440)
3/31/2020	(2,037)	(329)	Pessimist	(2,037)
1/31/2020	(1,067)	(1,127)	Pessimist	(1,127)
12/31/2019	(1,623)	(778)	Pessimist	(1,623)
6/30/2019	(2,366)	(2,559)	Pessimist	(2,559)
12/31/2018	(2,303)	(6,113)	Pessimist	(6,113)

The Bank's Management evaluates the accounting estimates and considers the appropriate VaR analysis. The impact resulting from the sensitivity of the projections of assets and liabilities to changes in prices, rates and other estimates do not have a material effect in the context of these financial statements.

34.3. Liquidity risk

Liquidity risk is managed through the adoption of controls that ensure the allocation of resources in assets of a high degree of quality and liquidity, based on equity and/or raised from counterparts recognized to be respected or dispersed in retail, at rates compatible with those practiced in the market. This control encompasses a review of any mismatch in time between assets and liabilities and the consequent adjustments required to reflect this.

The liquidity risk management structure is segregated and acts proactively in preventing possible situations in which Modal and its subsidiaries may be submitted in relation to liquidity. The liquidity risk monitoring process covers the entire flow of receipts and payments from the Bank and its subsidiaries so that risk mitigating actions can be carried out.

a) Contingencies plan

If there is any difficult liquidity situation resulting from unexpected redemptions of customer/bank deposits, default by a customer with active operation, or simply major adjustments in positions in the future market, Modal may resort to some alternatives, as shown below:

- Pre-approved credit lines with other prime banks;

- Raising rates for capturing deposits from customers/banks to attract more resources and/or lengthen funding;

- Reduction of commercial portfolios, through the non-rollover of maturing operations as a way of generating cash over time.

b) Balance by liquidity

The following tables show the balance sheet by maturity, for the years ended December 31, 2020 and 2019:

					2020
	No maturity	**Up to 3 months**	**Between 3 months and 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	283,714	1,773,878	-	-	2,057,592
Financial Assets					
Marketable Securities	1,004	137,672	50,960	1,038,620	1,228,256
Other Financial Assets	-	246,166	36,457	35,601	318,224
Compulsory Deposits in the Brazilian Central Bank	14,978	-	-	-	14,978
Credit operations (Note 10.b)	-	5,062	43,647	79,112	127,821
(-) Provision for Expected Loss	-	-	(121)	(7,885)	(8,006)
Derivatives	4,345	37,215	43,107	2,590	87,257
Non-current assets held for sale	-	-	332,828	-	332,828
Investments in Associates	2,117	-	-	-	2,117
Property and equipment and Intangible assets	103,174	-	-	-	103,174

(All amounts in thousands of reais unless otherwise stated)

Right of use	12,124	-	-	-	12,124
Tax Assets	-	-	40,761	71,400	112,161
Other assets	243	-	16,982	-	17,225
Total assets	**421,699**	**2,199,993**	**564,621**	**1,219,438**	**4,405,751**
Financial liabilities					
Deposits	801,907	786,323	232,080	271,750	2,092,060
Funds obtained in the open market	-	-	1,412,003	-	1,412,003
Other Financial Liabilities	23,443	154,548	4,847	41,885	224,723
Derivatives	9,492	2,648	3,436	1,074	16,650
Provisions and Contingent Liabilities	-	-	-	1,460	1,460
Other liabilities	-	9,423	21,237	5,777	36,437
Liabilities related to non-current assets held for sale	-	-	-	11,839	11,839
Tax Liabilities	-	-	23,930	396	24,326
Total Liabilities	**834,842**	**952,942**	**1,697,533**	**334,181**	**3,819,498**

					2019
	No maturity	**Up to 3 months**	**Between 3 months and 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	30,720	471,753	-	-	502,473
Financial Assets					
Marketable Securities	2,106	297,917	134,684	1,158,766	1,593,473
Other Financial Assets	9,205	143,766	238	70,796	224,005
Compulsory Deposits in the Brazilian Central Bank	3,433	-	-	-	3,433
Credit operations (Note 10.b)	-	2,229	61,334	28,362	91,925
(-) Provision for Expected Loss	-	-	(62)	(4,179)	(4,241)
Derivatives	-	13,296	5,232	42	18,570
Non-current assets held for sale	-	-	419,449	-	419,449
Investments in Associates	2,764	-	-	-	2,764
Property and equipment and Intangible assets	73,904	-	-	-	73,904
Right of use	16,912	-	-	-	16,912
Tax Assets	-	-	41,121	75,185	116,306
Other assets	254	-	10,471	-	10,725
Total assets	**139,298**	**928,961**	**672,467**	**1,328,972**	**3,069,698**
Financial Liabilities					
Deposits	336,457	-	522,747	540,702	1,399,906
Funds obtained in the open market	-	-	860,293	-	860,293
Other Financial Liabilities	16,594	266,542	3,210	45,291	331,637
Derivatives	-	39,551	7,180	192	46,923
Provisions and Contingent Liabilities	-	-	-	2,074	2,074
Other liabilities	16	1,180	11,675	3,923	16,794
Liabilities related to non-current assets held for sale	-	-	18,741	-	18,741
Tax Liabilities	-	-	17,226	-	17,226
Total financial liabilities	**353,067**	**307,273**	**1,441,072**	**592,182**	**2,693,594**

Management, based on historical bases, does not expect liabilities to have substantially anticipated terms.

34.4. Operating Risk

There is a team created specifically to manage operating risks. They are responsible for evaluating, monitoring and controlling the risks arising from systems, people, internal processes and external events.

The management of operating risk is carried out through analysis of the main processes, the identification of risks and by suggesting mitigating controls for these risks, using a system of internal controls and risk metrics. These controls and metrics also enable the administrators of each process to evaluate the controls, as well as their action plans.

(All amounts in thousands of reais unless otherwise stated)

In order to ensure the security of all procedures executed at the Bank, the operating risk area has a close relationship with the Internal Audit area and the Compliance Committee.

Among the operating risk events, these are included:

- Internal frauds;
- External frauds;
- Inappropriate practices related to customers, products and services;
- Interruption of the activities;
- Failures in the information technology systems;
- Failures in the execution, meeting deadlines and managing activities.

Operational risk management ensures compliance with established standards, being seen as an opportunity to improve the quality of processes and controls.

35. Capital management

Modal and its subsidiaries have a Capital Management Structure that comprises the continuous process of monitoring and controlling capital maintained by the Bank, the assessment of the capital need to face the risks to which it is subject and the planning of goals and capital need, considering the strategic objectives.

Capital management enables Modal and its subsidiaries to consistently assess the capital required to support projected growth, in addition to adopting a prospective stance, anticipating the need for capital due to possible changes in market conditions.

In this context, Modal and its subsidiaries manage the Capital structure in order to also meet the minimum regulatory capital requirements. In the normative plan, it is worth mentioning that the Basel Agreement has as a mandatory international parameter for financial institutions, better known in Brazil as Reference Capital, according to the legislation in force.

The Basel Ratio was calculated according to the criteria established by CMN Resolutions No. 4,192/2013 and No. 4,193/2013, which deal with the calculation of the Reference Equity (PR) and the Minimum Required Reference Equity (PRMR) in relation to the Weighted Assets by Risk (RWA).

Financial institutions have to maintain a minimum shareholder equity equivalent to 8% 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.

Modal is framed in this operating minimum limit, as follows:

	12/31/2020	**12/31/2019**
Principal capital (Level I)	202,028	204,945
Reference Equity	**202,028**	**204,945**
Credit Risk-weighted Assets (RWACPAD) **(a)**	1,154,462	1,020,896
Market Risk-weighted Assets (RWAMPAD) **(b)**	209,485	150,125
Operating Risk-weighted Assets (RWAOPAD) **(c)**	438,219	385,369
RWA **(a) + (b) + (c)**	**1,802,166**	**1,556,390**
Minimum Required Reference Equity	144,173	124,511
Excess in relation to the Minimum Required Reference Equity	57,855	80,434

(All amounts in thousands of reais unless otherwise stated)

Index	**11.0%**	**13.0%**
Reference equity amount calculated to cover interest rate risk of transactions not classified in the trading portfolio (RBAN)	9,088	6,654

36. Fair value hierarchy

The calculation of fair value is subject to a defined control structure to ensure that the calculated values are determined by a department independent of the risk taker.

According to IFRS13/CPC 46, the measurement of fair value using a fair value hierarchy that reflects the model used in the measurement process, must be in accordance with the following hierarchical levels:

- Level 1 - Determined based on public price quotes (unadjusted) in active markets for identical assets and liabilities, they include government bonds, stocks, listed derivatives;
- Level 2 - Derivatives of data other than quoted prices included in Level 1 that are observable for the asset or liability, directly (as prices) or indirectly (derived from prices); and
- Level 3 - They are derived from valuation techniques that include data for assets or liabilities that are not based on observable market variables (unobservable data).

a) Financial assets at fair value

				12/31/2020
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fund quotas	25,678	11,119	-	**36,797**
CRI	-	3,966	-	**3,966**
CRA	-	6,483	-	**6,483**
COE	-	1,503	-	**1,503**
Debentures	-	41,442	-	**41,442**
Shares	-	-	1,004	**1,004**
LFT	244,517	-	-	**244,517**
Financial assets at fair value through profit or loss	**270,195**	**64,513**	**1,004**	**335,712**
CDB	-	751	-	**751**
LC	-	325	-	**325**
LCA	-	475	-	**475**
LCI	-	327	-	**327**
LFT	890,235	-	-	**890,235**
LTN	9	-	-	**9**
NTN	421	-	-	**421**
TDA	-	1	-	**1**
Financial assets at fair value through other comprehensive income	**890,665**	**1,879**	**-**	**892,544**
Derivative financial instruments	**909**	**86,348**	**-**	**87,257**
Total	**1,161,769**	**152,740**	**1,004**	**1,315,513**
Liabilities				
Derivative financial instruments	765	15,885	-	**16,650**
Total	**765**	**15,885**	**-**	**16,650**

				12/31/2019
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fund quotas	25,077	-	-	**25,077**
CRI	-	18,725	-	**18,725**
CRA	-	3,718	-	**3,718**
COE	-	142	-	**142**
Debentures	-	22,081	-	**22,081**

(All amounts in thousands of reais unless otherwise stated)

Shares	1,403	-	703	**2,106**
LFT	434,546	-	-	**434,546**
Financial assets at fair value through profit or loss	**461,026**	**44,666**	**703**	**506,395**
CDB	-	134	-	**134**
LC	-	24	-	**24**
LCI	-	51	-	**51**
LCA	-	-	-	**-**
LFT	955,715	-	-	**955,715**
LTN	9	-	-	**9**
NTN	857	-	-	**857**
Toda	-	1	-	**1**
Financial assets at fair value through other comprehensive income	**956,581**	**210**	**-**	**956,791**
Derivative financial instruments	**15**	**18,555**	**-**	**18,570**
Total	**1,417,622**	**63,431**	**703**	**1,481,756**
Liabilities				
Derivative financial instruments	-	46,923	-	**46,923**
Total	**-**	**46,923**	**-**	**46,923**

The fair value of financial instruments classified as Level 3 is measured using internal estimates and models. The unobservable data used to measure the fair value of instruments classified as Level 3 are: interest rates, asset prices and volatility. Variations in unobservable data alone, or together, have no material effect.

b) Fair value of financial instruments measures at amortized cost

	12/31/2020		**12/31/2019**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets	**2,234,901**	**2,226,895**	**921,403**	**917,133**
Short-term interbank investments (1)	1,773,878	1,773,878	471,753	471,753
Other financial Assets (2)	318,224	318,224	224,005	224,005
Marketable Securities (3)	-	-	130,287	130,258
Credit operations (4)	127,821	119,815	91,925	87,684
Compulsory Deposits Bacen (3)	14,978	14,978	3,433	3,433
Liabilities	**3,504,063**	**3,355,028**	**2,260,199**	**2,274,561**
Deposits (5)	2,092,060	1,943,025	1,399,906	1,414,268
Funding in the open market (1)	1,412,003	1,412,003	860,293	860.293

1 - The fair value of the operations of liquidity interbank investments and open market funding are composed of short-term repurchase agreements that will be settled in the usual market terms (overnight). The book value presented for these instruments is substantially close to their fair value.

2- The other financial assets are substantially composed of trading and intermediation of securities and other short-term receivables. The book value presented for these instruments is substantially close to their fair value.

3 - Financial assets measured at amortized cost are recorded at amortized cost and their fair value was measured based on the market values available on the base date.

4 - Detailed credit operations are mostly fixed-rate operations and their fair value approximates their net book value of provision.

(All amounts in thousands of reais unless otherwise stated)

5 - The fair value of deposits was calculated by discounting the difference between cash flows under contractual conditions and the rates currently practiced in the market for instruments whose maturities are similar.

37. Other information

a) Agreements for offsetting and settling obligations under the National Financial System

Agreements for Offsetting and Settling Obligations - CMN Resolution No. 3,263/05; Modal has agreements for clearing and settling obligations under the National Financial System (SFN), entered into with corporations that are an integrating party to SFN, or not. The purpose of the resolution is to allow the offsetting of credits and debts held with the same counterparty, where the maturity of rights and obligations can be brought forward to the date on which the event of default occurs by one of the parties or in the event of the debtor's bankruptcy.

b) Third-parties' assets management

Position of the investment funds managed by Modal:

	Number of funds/portfolios		Balances	
	2020	2019	2020	2019
Investment funds and managed portfolios	212	161	40,652,365	37,654,038

c) Insurance coverage

Modal adopts the policy of contracting insurance coverage for assets subject to risks. The insurance amounts are considered sufficient to cover possible losses, taking into consideration the nature of the activities.

	Coverage Type	Amounts Covered	
		2020	2019
Directors and Officers Liability (D&O)	Managers' Civil Liability	40,000	40,000
Facilities, equipment, furniture and utensils	Any material damage to facilities, machinery and equipment	84,500	65,000

d) Corporate reorganization - Spin-off

On May 30, 2019, the Extraordinary General Meeting of Banco Modal S.A. approved the partial spin-off of the Bank's equity, with version of the spun-off portion in the amount of R$ 70,691 for the creation of a new entity called MAF Distribuidora de Títulos e Valores Mobiliários S.A. The operation was awaiting the approval of the regulator and legal procedures and was concluded on October 22, 2020. The change in the balance of net assets between the report date and the spin-off date, in the amount of R$ 4,111, was recorded in the Revenue Reserves account in Shareholders' Equity.

The net assets spun-off to MAFDTVM, according determined in Appraisal Report dated April 30, 2019, are as follows:

	Amount
Marketable Securities	5,008
Investments	10,912
Property and equipment in use	342
Intangible assets	54,429

(All amounts in thousands of reais unless otherwise stated)

Total assets	**70,691**
Share capital	70,691
Total Liabilities and Shareholders' Equity	**70,691**

In the spin-off, the portion referring to the difference between the original goodwill value and its value on the spin-off date, in the amount of R$ 12,095, was recognized in equity in the capital reserve account.

Pursuant to Decree 9,580/18, about the possibility of using the tax loss and negative calculation basis proportionately to the portion of the equity in the event of partial spin-off, in this operation, the bank recognized the negative amount of R$ 9,186 related to the write-off of the credit deferred charges of this nature (Note 21).

e) Capital investment

On November 30, 2020, the Extraordinary General Meeting of Banco Modal S.A. deliberated the receipt of investment of R$ 258,000 from a local investment group.. Within this context, the Meeting deliberated: (i) the voluntary conversion of 1,600 registered shares with no par value into common shares, all registered and with no par value; (ii) the Company's capital increase, in the total amount of R$ 16,931, through the issuance of 3,200 new preferred shares, nominative and with no par value. Of the amount invested, R$ 16,931 is allocated to the capital account and R$ 241,069 is allocated to the Company's capital reserve account. This operation is awaiting approval by the regulation body.

38. Subsequent Events

Purchases

Proseek Escola de Negócios, Finanças e Consultoria Empresarial Ltda. ("Proseek")

On January 21, 2021, Banco Modal, through its subsidiaries, and the shareholders of Proseek entered into a Private Instrument of Sale of Equity Interest Under Previous Conditions and Other Covenants in which Modal acquired all the Proseeks's quotas. The amount of the operation was R$ 2,298. This operation aims to reinforce the strategy of attracting independent investment agents and is still awaiting the approval of the regulator.

Eleven Serviços de Consultoria e Análise S.A. ("Eleven")

On February 5, 2021, Banco Modal and the shareholders of Eleven entered into a purchase and sale agreement through which Banco Modal acquired all Eleven's shares. This operation aims to enhance the proposal for financial advice to modalmais customers using the independent research house. The operation is still pending approval from the regulation body.

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