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### Annual Report, Board of Directors' Report, December 2009

Fundo Garantidor de Créditos

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**Financial Performance**

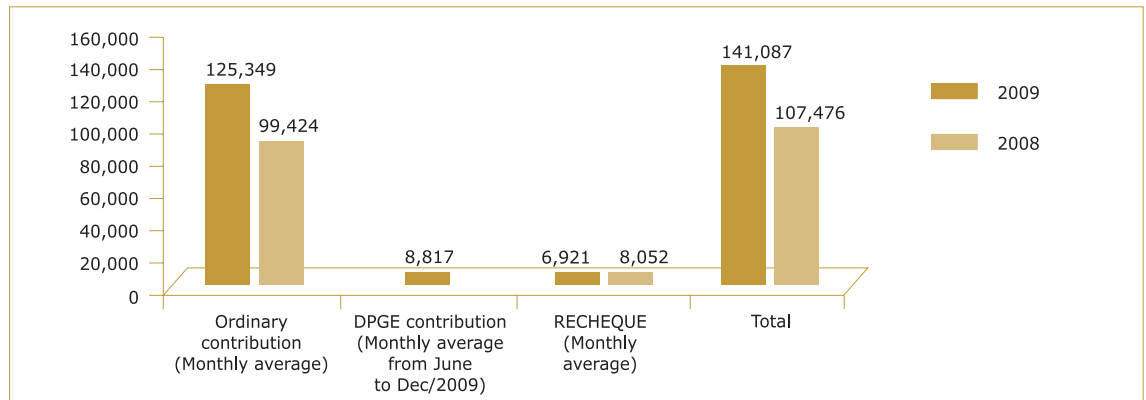
**Income**

The income, to pay for the guarantees to be provided by Fundo Garantidor de Créditos - FGC, as determined in its Statutes and regulatory rulings, derives from ordinary monthly contributions and special contributions from the Term Deposits with Special Guarantee - DPGE, made by the associated institutions, from the national financial market, including State, private and foreign, and the RECHEQUE - (Reserve to Promote Currency Stability and the Use of Checks) fees.

The average monthly ordinary contribution was R\$ 125,349 thousand (R\$ 99,424 thousand in 2008) and the monthly average for the special contribution (DPGE), which began in June of this year, was R\$ 8,817 thousand.

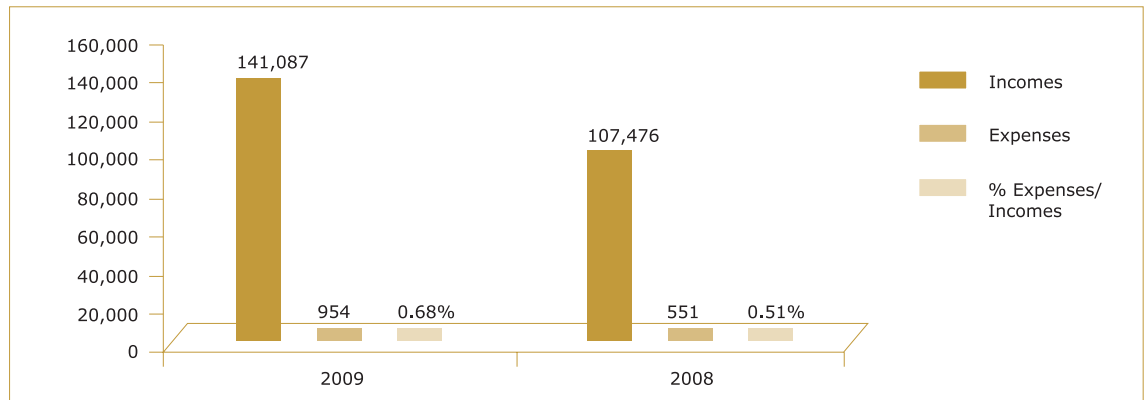
Collection of RECHEQUE fees, which are charged for processing inclusions and exclusions of the names from the national register of accounts closed from checks returned due to lack of funds, reported an average monthly fee of R\$ 6,921 thousand (R\$ 8,052 thousand in 2008).

The average monthly amount from these different sources of income was R\$ 141,087 thousand (R\$ 107,476 thousand, in 2008), excluding financial income.



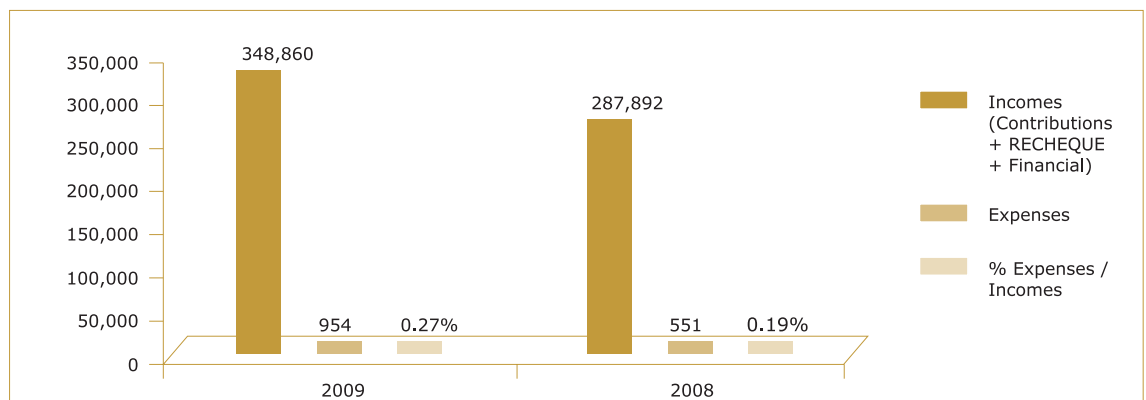
**Expenses**

The average monthly amount incurred by FGC for operational expenses (personnel, general and administrative) was R\$ 954 thousand, equivalent to 0.68% of average monthly income (R\$ 551 thousand in 2008, equivalent to 0.51% of the same average).



**Collections and Financial Incomes X Expenses**

Expenses represent 0.27% of income (0.19% in 2008). Income includes the monthly averages for contributions and RECHEQUE, for the amount of R\$ 141,087, (R\$ 107,476 thousand in 2008), plus monthly average financial income, for the amount of R\$ 207,773 thousand (R\$ 180,416 thousand in 2008), totaling R\$ 348,860 thousand (R\$ 287,892 thousand in 2008).



## The Institutional Mission

Fundo Garantidor de Créditos - FGC, created for the specific purpose of guaranteeing the small depositors of the associated institutions under the extra-judicial liquidation, intervention and bankruptcy or insolvency system, given the financial difficulties faced worldwide, has adapted rapidly in order to prevent a system crisis in Brazil.

The overall situation - and over 14 years of experience - resulted in FGC rethinking its role as a credit guarantor institution, collaborating with the Monetary Authority, and becoming an active component in the network for protecting and maintaining the stability of the National Financial System.

In October 2008, Circular 3,416, dated October 27, from the Central Bank of Brazil, permitted institutions associated to FGC to liberate compulsory funds due on demand deposits, through the anticipated collection of ordinary contributions to FGC. This measure, through the voluntary participation of 10 associated institutions, liberated R\$ 5.4 billion to FGC, increasing cash, at the time, to R\$ 22 billion.

Resolution 3,656, of December 17, 2008, from the National Monetary Council, increased, from 20% to 50% of its net equity, the permission for FGC to invest funds in the purchase of credit rights from associated institutions, in accordance with the type of portfolio, rules and eligibility criteria defined by the Board of Directors. This measure enables FGC to extend its program aimed at attending institutions with notional equity - level 1, of up to R\$ 2.5 billion, which covers 18 associated institutions.

The investment of these funds enabled FGC to move approximately R\$ 4 billion between the last quarter of 2008 and the first quarter of 2009, through FIDC's - Investment Funds in Credit Rights.

In January 2009, FGC increased its collaboration contributing towards the actions implemented by the government's economic area and the market liquidity mechanisms, establishing a new program for the purpose of encouraging new business, and used approximately R\$ 3 billion for this line.

In order to strengthen the previous measures, the National Monetary Council - CMN approved Resolution 3,692, of March 26, 2009, in order to create better conditions to enable medium and small sized financial institutions to resume credit operations.

The new measure regulates the time deposit funding, with special guarantees provided by FGC (DPGE). This mechanism made a decisive contribution to recovering the liquidity of the financial system, and enabled institutional investors to resume investing in medium and small sized institutions. During the year, the funding of DPGE made by 64 associated institutions amounted to R\$ 14.3 billion, which was below initial expectations, as a result of the reactivation of traditional time deposit portfolios by these institutions.

The difficulties on the national financial market have come to an end.

FGC granted the financial market, in one opportunity, all of the Investment Funds in Credit Rights (FIDCs) constituted to acquire receivables, **without any loss from credit operations**. The program, which started in January 2009, using R\$ 3 billion, was reduced to R\$ 2.3 billion, at the end of this year, and to R\$ 1.3 billion at the start of 2010, which is equivalent to 5% of FGC's cash and cash equivalents at resources at 31.12.2009, which is fully granted to the market.

The situation of "imported" financial stress demonstrates definitively, including to observers from the international market that: the good practice adopted by the Brazilian financial system is unquestionable; the regulation in our country complies with the highest levels; the Monetary Authorities acted decisively and at the opportune moment, with appropriate measures.

FGC collaborated significantly towards this success and is even stronger as a result of the experience. In September/2008, its net equity was R\$ 17.4 billion and its cash and cash equivalents, R\$ 16.9 billion. With the end of the crisis, it closed this year with net equity of R\$ 22.6 billion and R\$ 25.8 billion in cash and cash equivalents.

## Recovery of Guarantee Provided

FGC, which was initially created to provide credit guarantees against associate institutions, according to its Statutes and other regulatory norms, extended the scope of its activities, assuming the coordination, as the commission agent, of the specific proposal made in a Public Offer to acquire unsecured credits, offered to the creditors of Banco BMD S.A., BMD S.A. Corretora de Câmbio e Valores Mobiliários, BMD S.A. Distribuidora de Títulos e Valores Mobiliários, BMD Leasing S.A. and BMD S.A. Serviços Técnicos e Administrativos, companies from the BMD Group, under the extra-judicial liquidation system since 1998, the opportunity to assign 100% of their credit rights in the respective assets.

In general terms, the proposal to pay the remaining unsecured creditors from the BMD Group was made viable through adhesion of creditors representing 90% of the total balances.

In order to support these payments, funds were used that derived from companies from the BMD Group, in extra-judicial liquidation, for the amount of R\$ 169 million, and from the controllers, which provided FGC with net funds of R\$ 26.9 million.

Through the specific proposal made to the creditors from the companies being liquidated, FGC provided those that adhered to the proposal, the choice of receiving amounts cash or term, according to the terms of the Public Offer document published in national newspapers circulated throughout Brazil, as well as in the Federal Official Gazette.

Provisions and guarantees were constituted for the preferential and privileged credits pending administrative or judicial decisions.

It is important to highlight the significant participation of the São Paulo's Public Prosecution Service in implementing the project.

## Guarantee Provided

During the year, a total of R\$ 72 thousand was incurred as expenses from loan guarantees (R\$ 64 thousand in 2008), demonstrating the excellent stability of the National Financial System.

## Systems' Volumes

We present a statistical table comparing the evolution of products and credits subject to guarantees from FGC.

### Total System - Comparison Dec/2008 and Dec/2009 per Bracket

Bracket	Dec / 2008				Dec / 2009				
	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	
(Amounts in R\$)									
From	to								
0.01	5,000.00	128,197,947	90.12%	54,321	5.42%	135,788,404	89.86%	56,525	5.37%
5,000.01	10,000.00	5,345,573	3.76%	37,736	3.76%	5,664,270	3.75%	39,996	3.80%
10,000.01	15,000.00	2,394,145	1.68%	29,156	2.91%	2,588,602	1.71%	31,533	3.00%
15,000.01	20,000.00	1,353,125	0.95%	23,379	2.33%	1,480,082	0.98%	25,581	2.43%
20,000.01	25,000.00	912,096	0.64%	20,328	2.03%	1,011,783	0.67%	22,549	2.14%
25,000.01	30,000.00	623,249	0.44%	17,044	1.70%	697,376	0.46%	19,071	1.81%
30,000.01	35,000.00	479,565	0.34%	15,507	1.55%	540,778	0.36%	17,486	1.66%
35,000.01	40,000.00	355,080	0.25%	13,274	1.32%	405,962	0.27%	15,178	1.44%
40,000.01	45,000.00	293,085	0.21%	12,418	1.24%	341,583	0.23%	14,471	1.38%
45,000.01	50,000.00	231,096	0.16%	10,956	1.09%	276,729	0.18%	13,122	1.25%
50,000.01	60,000.00	374,323	0.26%	20,439	2.03%	417,633	0.28%	22,793	2.16%
<b>Subtotal above R\$ 60,000.00</b>		<b>140,559,284</b>	<b>98.81%</b>	<b>254,558</b>	<b>25.38%</b>	<b>149,213,202</b>	<b>98.75%</b>	<b>278,305</b>	<b>26.44%</b>
<b>Subtotal above R\$ 60,000.00</b>		<b>1,688,665</b>	<b>1.19%</b>	<b>748,469</b>	<b>74.62%</b>	<b>1,889,563</b>	<b>1.25%</b>	<b>774,112</b>	<b>73.56%</b>
<b>Total</b>		<b>142,247,949</b>	<b>100.00%</b>	<b>1,003,027</b>	<b>100.00%</b>	<b>151,102,765</b>	<b>100.00%</b>	<b>1,052,417</b>	<b>100.00%</b>
<b>Charge Dec/08 to Dec/09</b>						<b>6.22%</b>		<b>4.92%</b>	
<b>Amount Guaranteed</b>				<b>355,878</b>				<b>391,679</b>	
<b>Charge Dec/08 to Dec/09</b>								<b>10.06%</b>	

### Term Deposit With Special Guarantee - DPGE

Bracket	Dec/2008				Dec/2009				
	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	
(Amounts in R\$)									
1,000.00	1,000,000.00	0	0	0	0	1,878	40.19%	667	4.67%
1,000,000.01	5,000,000.00	0	0	0	0	1,823	39.01%	3,956	27.71%
5,000,000.01	10,000,000.00	0	0	0	0	499	10.68%	3,240	22.70%
10,000,000.01	15,000,000.00	0	0	0	0	310	6.63%	3,666	25.68%
15,000,000.01	20,000,000.00	0	0	0	0	163	3.49%	2,747	19.24%
<b>Subtotal</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,673</b>	<b>100.00%</b>	<b>14,276</b>	<b>100.00%</b>
<b>Amount Guaranteed - DPGE</b>								<b>14,276</b>	
<b>Charge Dec-08 to Dec-09</b>									
<b>Total</b>		<b>142,247,949</b>	<b>100.00%</b>	<b>1,003,027</b>	<b>100.00%</b>	<b>151,107,438</b>	<b>100.00%</b>	<b>1,066,693</b>	<b>100.00%</b>
<b>Total Amount Guaranteed</b>				<b>355,878</b>				<b>405,955</b>	
<b>Charge Dec-08 to Dec-09</b>								<b>14.07%</b>	

### Comparison per Product (R\$ Million)

	Dec/08		Dec/09		(Dec/09- Dec/08)
	Amounts	% of Total	Amounts	% of Total	
<b>Savings</b>	270,682	26.99%	319,414	29.94%	18.00%
<b>Demand Deposits</b>	144,336	14.39%	157,499	14.77%	9.12%
<b>Time Deposits</b>	568,211	56.65%	550,493	51.61%	(3.12%)
<b>DPGE</b>	0	0.00%	14,276	1.34%	0.00%
<b>Deposits Investments</b>	3,275	0.33%	3,174	0.30%	(3.08%)
<b>Mortgage Bills</b>	1,501	0.15%	1,703	0.16%	13.46%
<b>Exchange Bills</b>	2,212	0.22%	2,761	0.26%	24.82%
<b>Real State Bills</b>	0	0.00%	0	0.00%	0.00%
<b>Real State Credit Bills</b>	10,561	1.05%	15,449	1.45%	46.28%
<b>Deposit Not Moved by Checks</b>	2,249	0.22%	1,924	0.18%	(14.45%)
	<b>1,003,027</b>	<b>100.00%</b>	<b>1,066,693</b>	<b>100.00%</b>	<b>6.35%</b>

Source: BACEN (DESIG/DINFO) and FGC (DPGE)

### Acknowledgements

We would like to express our gratitude to our associates, the public in general and the monetary authorities in our country who honored us with their trust.

We also wish to extend our gratitude to Antonio Beltran Martinez, one of the senior members of the Fiscal Council, and a member since the creation of FGC, who withdrew from office during this year.

December, 31

In Thousands of Reais

Assets		
	2009	2008
<b>Current assets</b>		
Banks checking account	2,281	2,165
Financial investments and securities (Note 4)	25,804,348	23,170,781
Contributions receivable (Note 5)	46,643	28,382
Other receivables	13,881	2,099
	<u>25,867,153</u>	<u>23,203,427</u>
<b>Noncurrent assets</b>		
<b>Long-term assets</b>		
<b>Financial investments and securities (Note 4)</b>		
	<u>278,740</u>	<u>246,363</u>
<b>Notes and credits receivable</b>		
Mortgage certificates	5,494	5,335
Mortgaged contracts	13,133	14,456
Credits with FCVS	1,364,074	1,290,216
Credits with FCVS - To be defined	81,047	94,185
Credits with real estate credit companies	177,718	176,270
Other notes and credits receivable	130,499	43,379
Court deposits	37,032	36,771
Provision for adjustment to market value of notes and credits	(140,029)	(224,568)
Allowance for doubtful receivables (Note 6)	(210,568)	(239,670)
	<u>1,458,400</u>	<u>1,196,374</u>
	<u>1,737,140</u>	<u>1,442,737</u>
<b>Permanent assets</b>		
Property and equipment	171	203
Deferred charges	29	41
	<u>200</u>	<u>244</u>
<b>Total assets</b>	<u>27,604,493</u>	<u>24,646,408</u>

Liabilities		
	2009	2008
<b>Current liabilities</b>		
Accounts payable to suppliers	1,156	768
Other liabilities	35,821	38,375
Voluntary advances of contributions (Note 8)	1,074,884	1,074,884
Salaries and social charges	45	36
	<u>1,111,906</u>	<u>1,114,063</u>
<b>Noncurrent liabilities</b>		
<b>Long-term liabilities</b>		
<b>Other liabilities</b>		
Voluntary advances of contributions (Note 8)	3,045,504	4,120,388
Contractual liabilities - EMGEA (Note 7)	393,811	552,543
Due to third parties	41,760	-
Others	27,500	25,700
	<u>3,508,575</u>	<u>4,698,631</u>
<b>Provision for contingencies</b>		
Provision for contingencies (Note 3f)	324,897	299,250
	<u>3,833,472</u>	<u>4,997,881</u>
<b>Net equity</b>		
Accumulated surplus	22,659,115	18,534,464
<b>Total liabilities</b>	<u>27,604,493</u>	<u>24,646,408</u>

## Statements of Income and Expenses and Changes in Net Equity

	2009	2008
<b>Statement of income and expenses</b>		
<b>Income (expenses) from collections</b>		
Monthly contributions	1,504,187	1,193,085
DPGE monthly contributions	61,716	-
Contributions from RECHEQUE	83,055	96,621
Expenses with collection services	(4,153)	(4,831)
<b>Net income from collections</b>	<u>1,644,805</u>	<u>1,284,875</u>
<b>Operating income (expenses)</b>		
Guarantees provided for subrogated credits	(72)	(64)
General and administrative expenses	(10,112)	(5,526)
Personnel	(1,330)	(1,082)
Expenses from credits with SFH	(70)	(2,369)
Other operational expenses	(6,526)	(8,076)
Provisions and equity adjustments (Note 9a)	36,787	(132,652)
Financial expenses (Note 9b)	(32,107)	(47,468)
Financial income (Nota 9c)	2,493,276	2,164,994
	<u>2,479,845</u>	<u>1,967,757</u>
<b>Surplus for the year</b>	<u>4,124,651</u>	<u>3,252,632</u>
<b>Statements of changes in net equity</b>		
Opening balance	18,534,464	15,281,832
Surplus for the year	<u>4,124,651</u>	<u>3,252,632</u>
<b>Closing balance</b>	<u>22,659,115</u>	<u>18,534,464</u>

## Statements of Cash Flows Indirect Method

	2009	2008
<b>Cash flows from operational activities</b>		
<b>Surplus for the year</b>	<b>4,124,651</b>	<b>3,252,632</b>
<b>Adjustments to reconcile the results with the cash and cash equivalents generated from operational activities</b>		
Depreciation and amortization	66	75
<b>Variations in assets and liabilities</b>		
(Increase)/Decrease in notes and credits receivable	(262,026)	196,999
Decrease/(Increase) in financial investments and securities	6,549,924	(6,661,445)
(Increase)/Decrease in contributions receivable and other credits	(30,043)	48,435
Increase/(Decrease) in voluntary advances of contributions	(1,074,884)	5,195,272
Increase/(Decrease) in other liabilities	(2,157)	462
(Decrease) in contractual liabilities and others	(115,172)	(128,215)
Increase in provision for contingencies	25,647	120,558
<b>Net cash generated from operational activities</b>	<u>9,216,006</u>	<u>2,024,773</u>
<b>Cash flows from investment activities</b>		
Purchase of real estate	(22)	(37)
<b>Net cash applied in investment activities</b>	<u>(22)</u>	<u>(37)</u>
<b>Increase in cash and cash equivalents</b>	<u>9,215,984</u>	<u>2,024,736</u>
<b>Changes in net cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of period	16,590,645	14,565,909
Cash and cash equivalents at the end of period (Note 10)	25,806,629	16,590,645
<b>Increase in cash and cash equivalents</b>	<u>9,215,984</u>	<u>2,024,736</u>

## 1 Operations

Fundo Garantidor de Créditos - FGC, which, through a legal operation, absorbed the extinct Fundo de Garantia dos Depósitos e Letras Imobiliárias - FGDLI (Deposit and Real State Bond Guaranty Fund) on April 28, 2005, is a private not-for-profit civil association with corporate entity of private rights, governed in accordance with the terms of Resolution 3,251, of December 16, 2004, altered by Resolution 3,400, of September 06, 2006, and Resolution 3,656, of December 17, 2008, from the National Monetary Council - CMN and by legal and regulatory provisions. It is exempt from income tax and social contribution on any surplus, as set forth in article 4 of Law 9,710/98. Its main activity is to provide credit guarantees for depositors of member institutions in the event of:

- a. Decree of intervention, extrajudicial liquidation or bankruptcy of the member institution;
- b. Recognition, by the Central Bank of Brazil - BACEN of the state of insolvency of a member institution which, pursuant to prevailing legislation, is not subject to the regimes referred to in item (a); and
- c. Special situations that do not fall within items (a) and (b), according to prior agreement between BACEN and FGC.

FGC guarantees the maximum amount of R\$ 60 per individual or corporate entity, against an associated institution or against all of the institutions from the same financial conglomerate and covers the following operations: demand deposits, deposits in investment accounts, savings deposits, term deposits and deposits in non-checking accounts, aimed at registering and controlling the flow of funds from providing services related to payments of payrolls, bills falling due, pensions and similar plans, bills of exchange, real estate notes, mortgage notes and real estate credit notes.

The credits held by associations, condominiums, cooperatives, consortium groups or administrators, complementary pension plan entities, insurance companies, capitalization companies and other unincorporated associations and similar entities are guaranteed up to a limit of R\$ 60 for their credits with the same associated institution.

Resolution 3,692, of March 26, 2009, altered by Resolutions 3,717, of April 23, 2009, and 3,793, of September 28, 2009, from the National Monetary Council - CMN, authorized commercial banks, multiple banks, development banks, investment banks, financing, credit and investment companies and State banks to receive, as from April 01, 2009, term deposits, without issuing certificates, with special guarantees (Term Deposit with Special Guarantee - DPGE) to be provided by FGC for the amount of up to R\$ 20,000 per deposit holder, for which a guarantee will only be demanded, according to the situations provided in items a, b and c.

Consequently, FGC maintains a guarantee of R\$ 60 for the credits provided in article 2 of Annex II to Resolution 3,251/04, with the new text given by Resolution 3,400/06, and of up to R\$ 20,000 for the funding from DPGE, observing the criteria established in its Regulation.

FGC's associated members comprise multiple service banks, commercial banks, investment banks, development banks, Caixa Econômica Federal - CEF - Federal Savings Bank, credit, financing and investment companies, real estate credit companies, mortgage companies and savings and loan associations operating in Brazil, undertaking the operations described above.

The responsibility of each member is limited to the compulsory contributions made for funding the guarantee.

The funds for bearing the costs of the guarantee to be provided by FGC, as determined in its statutes and regulatory provisions, are derived from:

- Ordinary monthly contributions from the member institutions, based on the average monthly balances of the accounts corresponding to the obligations from the guarantee paid by the member institutions;
- Monthly contributions based on the term deposits with special guarantees - DPGE from the associated institutions;
- Funds from the Reserve for Fostering Currency Stability and Check Usage (Reserva para Promoção da Estabilidade da Moeda e do Uso do Cheque) - RECHEQUE; and
- Recovery of credit rights from the guarantees provided, and the results of FGC's other income.

The percentage of the ordinary contribution from the institutions associated with FGC is fixed by the Board of Directors, by means of a specific request, properly founded and presented to the Central Bank of Brazil, for examination and submission prior to authorization from the National Monetary Council, observing the maximum monthly percentage of 0.025%. The National Monetary Council, through Resolution 3,400/06, authorized management from FGC to fix the monthly contribution at 0.0125%, and through Resolution 3,692/09, authorized the special monthly contribution to be fixed at 0.0833% for associated institutions those opt to fund DPGE.

As provided in Resolution 3,656, of December 17, 2008, from the CMN, FGC can invest funds with its associated institutions in: the purchase of credit rights from financial institutions or leasing companies, bank deposits with or without the issue of certificates, leasing notes, foreign exchange acceptances from associated institutions, provided they are tied to credit rights and upon realization of tied operations in the form of CMN Resolution 2,921, of January 17, 2002, with the balance for these investments limited to 50% of net equity, observing the eligibility criteria established by the Board of Directors.

When these operations are realized, FGC uses an exclusive fund, the purpose of which is to invest in these types of investments.

## **2 Presentation of the Financial Statements**

The financial statements were prepared in accordance with accounting practices adopted in Brazil, which include corporate legislation and pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee.

Estimates and assumptions, considered prudent by Management, were used in the preparation of these statements, including determining the market value of credits with the Wage Variation Compensation Fund - FCVS; the provision for doubtful mortgage certificate receivables, credits with FCVS, credits with real estate on-lending credit companies, credits with financial institutions undergoing extrajudicial liquidation, and the provision for contingencies arising mainly from contracts with co-obligation. These assumptions and estimates are reviewed periodically by Management.

## **3 Significant Accounting Practices**

### **a. Determination of surplus**

The surplus is recognized on an accruals basis and ordinary contributions are recognized when the amounts are known.

When credits that have been written off as losses and registered to memorandum accounts are subsequently renegotiated, they are then included in equity accounts and the provision retained. They are recognized to results only when effectively received and/or in the case of credits received in lieu of payment from FCVS are accepted by Caixa Econômica Federal.

### **b. Cash and cash equivalents**

Include cash, short term, highly liquid investments, that are readily convertible into a known amount of cash and are subject to an insignificant risk of a change in value.

### **c. Financial instruments**

#### **Classification and measurement**

FGC classifies its financial instruments between the following categories: (i) held for trading; (ii) loans and receivables; (iii) held to maturity; and (iv) available for sale. The classification depends on the origin of the instruments or the purpose for which the financial instruments were acquired. The classification of financial instruments is made at the time of initial recognition of the operation.

#### **(i) Financial assets held for trading**

These are stated at fair value, and held for the purpose of active and frequent trading. The assets in this category are classified to current assets. Any gains or losses arising from variations in fair values of the financial assets held for trading are recognized to the surplus for the year.

#### **(ii) Loans and receivables**

This category includes receivables that are financial assets with fixed or calculable payments, and are not quoted on an active market. They are recorded as current assets, except when their maturity date is 12 months subsequent to the balance sheet date (then they are classified to non current assets). They are recorded at amortized cost, using the effective interest rate method.

#### **(iii) Assets held to maturity**

These are basically financial assets that can not be classified as loans and receivables since they are quoted on an active market. Management acquires these financial assets with the intention and financial ability to hold them in portfolio until maturity. They are valued at acquisition cost, plus income earned as the corresponding entry for the surplus for the year.

#### **(iv) Financial assets available for sale**

Assets that are not classified to any other category are included in this category. They are registered as non current assets, unless management intends to sell the investment within 12 months of the balance sheet date.

Financial assets available for sale are stated at fair values. Interest on securities available for sale, calculated using the effective interest rate method, is recognized in the statement of income as financial income. The amount that refers to the variation in the fair value is recorded against equity, as an equity evaluation adjustment, and realized against results when the securities are liquidated or when a permanent loss is incurred.

#### ***Fair value***

The fair values of financial instruments with public quotations are based on the existing purchase prices. For financial assets without an active market, or public quotation, FGC analyzes the fair value based on evaluation techniques. These techniques include: (a) the use of recent operations agreed with third parties; (b) reference to other instruments that are very similar; and (c) analyze of discounted cashflows; which make the greatest possible use of information generated by the market.

On the balance sheet date, FGC evaluates whether there is any objective evidence that a financial asset or group of financial assets are stated for an amount in excess of their recoverable value. The following assumptions are used for this evaluation:

- Provision for present value adjustment of bills and credits receivable and securities calculated based on differences in interest rates for bills and those negotiated on the market, for assets with similar characteristics in relation to risks. The present value adjustment for FCVS credits is calculated based on the net value of these assets at the balance sheet date, which includes the total value of credits receivable, excluding liabilities contracted that could be liquidated, equally, against these credits.

#### ***Allowance for doubtful receivables***

The allowance for doubtful receivables was recorded based on information available at the balance sheet date, and is considered sufficient by Management to cover probable losses, based on the following policies:

- **Allowance for credits with FCVS** - Recorded based on expected rejections from proof of the credits and the economic ability of agents to honor these amounts and also the effects of Decree 97,222/88 and Law 10,150/00;
- **Allowance for credits with on-lending real estate credit companies** - Recorded based on the expected loss from recovering these credits, considering the ability of the debtors to make the payments; and
- **Allowance for losses on mortgage certificates and contracts** - Recorded based on information obtained from the Agents, considering, individually, the level of arrears of installment payments and the balances not covered by FCVS.

#### ***d. Permanent assets***

Recorded at cost depreciation is provided using the straight-line method at annual rates that take into account the estimated useful lives of the assets.

#### ***e. Current and long-term liabilities***

Stated at known or estimated amounts, plus, when applicable, the corresponding charges and monetary variations incurred.

#### ***f. Provision for contingencies***

FGC follows the guidelines from NPC 22 (Accounting Standard and Procedure 22), which determines the procedures applicable for recognizing, measuring and disclosing contingent assets and liabilities. Consequently, contingent assets are recognized only when there is evidence that offers a guarantee that the assets will be realized, and for which no more appeals can be made. Contingent liabilities, both judicial and legal, are classified by management, based on information from its legal advisors, between possible, probable or remote, and provisions are registered for those that can be measured and are classified as probable.

FGC has recorded provisions for contingencies, which are mainly legal, based on best estimates, for the amount of R\$ 324,897 (2008 - R\$ 299,250), for which it has R\$ 37,032 (2008 - R\$ 36,771) in legal deposits. The balances are corrected based on the respective interest and indexes, and of the total provision for contingencies, R\$ 11,012 was recorded during the year.

## **4 Financial Investments and Securities**

### **a. Composition of financial investments and securities**

The financial investments and securities are classified as available for sale, except the Certificates of Bank Deposit - CDB, which are classified as held to maturity, and at December 31, consisted of the following:



Institution	2009	2008
<b>Repurchase Operations (i)</b>		
Banco do Brasil S.A.	13,071,000	11,659,534
Caixa Econômica Federal	5,325,111	4,843,324
Banco Bradesco S.A. (for third parties)	45,779	-
	<u>18,441,890</u>	<u>16,502,858</u>
<b>Bank Deposit Certificate</b>		
Bank Deposit Certificate - CDB (ii)	248,314	-
Financial Investments - CDB	94,121	85,622
	<u>342,435</u>	<u>85,622</u>
<b>Public Federal Bills</b>		
National Financial Treasury Bills - LFT	2,701	5,229
CVS (iii)	30,426	246,363
	<u>33,127</u>	<u>251,592</u>
<b>Investment Fund Quotas</b>		
Investment Fund (iv)	7,265,636	6,577,072
<b>Total</b>	<b><u>26,083,088</u></b>	<b><u>23,417,144</u></b>
Current assets	<u>25,804,348</u>	<u>23,170,781</u>
Long term assets	<u>278,740</u>	<u>246,363</u>

- (i) Operations backed by federal government bonds and remunerated at floating rates identical to the remuneration for the daily average CDI and SELIC rates;
- (ii) Classified as securities held to maturity;
- (iii) Securities arising from the conversion of credits with FCVS into CVS securities; and
- (iv) Refers to the exclusive fund, which invests resources in investment funds for credit rights in Foreign Exchange Notes and Bank Deposit Certificates (tied to credit rights).

#### b. Custody of securities and investment fund quotas

The public securities are held in custody with the System for Settlement and Custody (Selic) and CETIP S.A. - OTC Clearing House for the Custody and Financial Settlement of Securities, private securities (CDBs) are held with the CETIP; and the investment fund quotas with the respective administrators.

## 5 Contributions Receivable

The ordinary monthly contributions and those that refer to term deposits with special guarantee - DPGE from FGC member institutions are reported to Banco do Brasil S.A. by no later than the 15th day of the month subsequent to the base month of the calculation and are received on the first working day of the month subsequent to the month in which the information was received. The balance of contributions receivable at December 31, 2009 was R\$ 46,643 (2008 - R\$ 28,382).

## 6 Notes and Credits Receivable - Long-term Assets

Notes and credits receivable, classified as loans and receivables, substantially comprise the credits incorporated from the extinct FGDLI, as shown:

Description	Value at 31.12.09	Provision for		Net value at	
		Doubtful receivables	Market value adjustment	31.12.09	31.12.08
<b>Mortgage certificates</b>	5,494	( 2,048)	-	3,446	3,356
<b>Mortgaged contracts</b>	13,133	( 1,654)	-	11,479	12,967
<b>Credits with FCVS</b>					
Pre-novated (i)	157,238	-	-	157,238	80,606
Ratified (i)	790,195	-	-	790,195	708,442
Validated (i)	373,837	-	-	373,837	431,605
To be validated (i)	42,804	-	-	42,804	69,563
Provision for present value	-	-	(140,029)	( 140,029)	( 224,568)
Allowance for doubtful receivables	-	( 82,201)	-	( 82,201)	( 75,120)
<b>Credits with FCVS to be defined</b>	81,047	( 81,047)	-	-	-
<b>Credits with real estate credit companies</b>	177,718	( 31,047)	-	146,671	121,130
<b>Court deposits</b>	37,032	-	-	37,032	36,771
<b>Others</b>	130,499	( 12,571)	-	117,928	31,622
Total in 2009	<u>1,808,997</u>	<u>(210,568)</u>	<u>(140,029)</u>	<u>1,458,400</u>	-
Total in 2008	<u>1,660,612</u>	<u>(239,670)</u>	<u>(224,568)</u>	-	<u>1,196,374</u>

- (i) The variation in the account balances can be attributed to the evolution of the credit conversion processes with FCVS, with the recognition of the effects of Law 10,150/00. The conversions of credits into CVS securities, realized to date, resulted in cash received during 2009, for the amount of R\$ 12,577 (2008 - R\$ 55,609).

## 7 Contractual Liabilities - EMGEA

FGC has contractual obligations with EMGEA - Empresa Gestora de Ativos, for the amount of R\$ 393,811 (2008 - R\$ 552,543), corrected by the referential rate (TR) plus interest of 6.17% per annum. These originate from the liquidation of certain co-obligations from the extinct FGDLI, and there are 2 annual installments still outstanding, which fall due in May of 2010 and 2011.

## 8 Voluntary Advances of Contributions

In accordance with the prerogative of Circular 3,416, of October 24, 2008, issued by the Central Bank of Brazil, associated institutions made advances for 60 (sixty) times the value of the ordinary contribution to FGC, based on the data for August 2008. The advance will be deducted monthly, for the number of months equivalent to the number of monthly advances made. At December 31, 2009 the balance for voluntary advances of contributions amounted to R\$ 4,120,388. (2008 - R\$ 5,195,272).

## 9 Operating Income (Expenses)

### a. Provisions and equity adjustments

Description	2009	2008
Net effect of the movements from allowance for doubtful receivables	17,259	313,714
Effect from adjustment to present value of notes and credits receivable	44,915	17,428
Provision for civil contingencies	(11,012)	-
Provision for contingencies and contractual obligations.	(14,375)	(198,490)
<b>Total</b>	<b>36,787</b>	<b>132,652</b>

### b. Financial expenses

Description	2009	2008
Interest and price-level restatement - Contractual liabilities	31,844	47,150
Others	263	318
<b>Total</b>	<b>32,107</b>	<b>47,468</b>

### c. Financial income

Description	2009	2008
Income from financial investments	2,386,663	2,022,104
Price-level restatement of credits with FCVS	101,895	142,254
Other	4,718	636
<b>Total</b>	<b>2,493,276</b>	<b>2,164,994</b>

## 10 Statements of Cashflow

The composition of cash and cash equivalents for purposes of the statement of cashflows is presented below:

Description	2009	2008
Banks - Check accounts	2,281	2,165
Financial investments - Repurchase operations	18,441,890	16,502,858
Financial investments - Investment fund	7,268,337	-
Financial investments - CDB	94,121	85,622
<b>Total</b>	<b>25,806,629</b>	<b>16,590,645</b>

## 11 Other Information

- FGC, as the commission agent, through the specific proposal made in a Public Offer for acquiring unsecured credits, offered the creditors of Banco BMD S.A., BMD S.A. Corretora de Câmbio e Valores Mobiliários, BMD S.A. Distribuidora de Títulos e Valores Mobiliários, BMD Leasing S.A. and BMD S.A. Serviços Técnicos e Administrativos, companies from the BMD Group, in the form of an extra-judicial settlement, the opportunity to assign 100% of their credit rights in the respective assets, and consequently, made a payment of R\$ 154,792, resulting in a balance outstanding R\$ 41,760, registered as payments for third parties, representing the creditors that adhered to the term module, with financial settlement anticipated for 14.12.2016 and for those that had not formalized their adhesion, by December 31, 2009; and
- FGC keeps a record in memorandum accounts of payments for expenses with credit guarantees subrogated to clients of financial institutions, for which extrajudicial liquidation or intervention has been decreed, net of recoveries and at historic amounts, with the accumulated amount up to December 31, 2009 corresponding to R\$ 3,620,486 (2008 - R\$ 3,620,485). It also has a record in memorandum accounts, of possible loan losses originating from the extinct FGDLI, valued up to the date of the takeover of FGDLI, by FGC, for the amount of R\$ 2,579,977 (2008 - R\$ 2,579,977).

## ***BOARD OF DIRECTORS***

### ***Members***

**President** - Gabriel Jorge Ferreira  
Aldemir Bendine  
Fabio Colletti Barbosa  
Luiz Carlos Trabuco Cappi  
Roberto Egydio Setubal

### ***Alternates***

Carlos Alberto Vieira  
Maria Fernanda Ramos Coelho  
José de Paiva Ferreira  
Paulo Guilherme Monteiro Lobato Ribeiro

## ***FISCAL COUNCIL***

### ***Members***

Helio Ribeiro Duarte  
Manoel Felix Cintra Neto

### ***Alternates***

Alberto Corsetti  
Tito Enrique da Silva Neto

## ***EXECUTIVE DIRECTION***

Antonio Carlos Bueno de Camargo Silva  
Executive Director

Carlos Henrique de Paula  
Director

Luiz Armando Guarnieri  
Accountant CRC 1SP 124.082/O-8

### Fiscal Council Report

The members of the Fiscal Council of the Fundo Garantidor de Créditos - FGC, whose signatures are shown below, in a meeting held at the FGC's seat at Rua Dr. Eduardo de Souza Aranha, 387, suite 31, 3.º Floor, in the City of São Paulo, SP, on the 29 th day of March, 2010, at 5 PM, pursuant to their legal and statutory functions, having reviewed the Report from the Board of Directors, the Balance Sheet, and the respective Statements of Earnings and Expenditures, the Changes in the Balance Sheet, and the Cash Flows, relative to the annual period ending on December 31, 2009, and based upon the KPMG Independent Auditors' Opinion, submitted without reservations; are of the opinion that the aforesaid documents, reviewed according to the accounting practices adopted in Brazil, represent appropriately, in all of their relevant aspects, the assets and financial position of the Institution, thus, recommending their approval by the FGC's Board of Directors.

São Paulo, March 29, 2010.

**Helio Ribeiro Duarte**

HSBC Bank Brasil S.A. - Banco Múltiplo

**Manoel Felix Cintra Neto**

Banco Indusval Multistock S.A.

### Independent Auditors' Report

To  
The Board of Directors and Executive Directors of  
**Fundo Garantidor de Créditos - FGC**  
São Paulo - SP

1. We have examined the balance sheets of Fundo Garantidor de Créditos - FGC as of December 31, 2009 and 2008, and the related statements of income and expenses, changes in net equity and cash flows for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examinations were conducted in accordance with auditing standards applicable in Brazil and included:
  - (a) planning of the audit work considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of FGC;
  - (b) verification, on a test basis, of the evidence and records that support the amounts and accounting information disclosed; and
  - (c) evaluation of the most significant accounting practices and estimates adopted by the management of FGC, as well as presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Fundo Garantidor de Créditos - FGC as of December 31, 2009 and 2008, its income and expenses, changes in net equity and cash flows for the years then ended, in accordance with accounting practices adopted in Brazil.

São Paulo, February 19, 2010.



**Auditores Independentes**  
CRC 2SP014428/O-6

Alberto Spilborghs Neto  
Accountant CRC 1SP167455/O-0

Fernando Antonio Rodrigues Alfredo  
Accountant CRC 1SP252419/O-0