



Yale SCHOOL OF MANAGEMENT  
*Program on Financial Stability*

## EliScholar – A Digital Platform for Scholarly Publishing at Yale

---

YPFS Resource Library

---

12-1-2010

### Annual Report, Report from the Administration, December 2010

Fundo Garantidor de Créditos

<https://elischolar.library.yale.edu/ypfs-documents/11794>

---

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact [ypfs@yale.edu](mailto:ypfs@yale.edu).

## 15 Year History

The Fundo Garantidor de Créditos - FGC was created for the specific purpose of guaranteeing small depositors of member institutions under special regime or insolvency and special situations not fitting in the previous items identified, through a previous agreement between the Brazilian Central Bank and FGC, which has been enacted for 15 years since, November 16, 2010. Until then, the only insured deposit contracts were those of savings accounts, which were guaranteed up to the limit of R\$ 5 thousand by the Deposit and Real Estate Bonds Guarantee Fund - FGDLI. Other deposits did not have a formal guarantee and followed the procedures adopted by the Brazilian Central Bank to indemnify small depositors. With the creation of FGC, the range of insured deposits was expanded and the ordinary guarantee amount, today limited of up to R\$ 70 thousand, and the special guarantee, up to R\$ 20 million, related to the Time Deposit with Special Guarantee (DPGE). Initially created as a Pay Box System, since the 2008 international crisis, FGC was led to rethink its role of providing credit guarantees against member institutions, and started to collaborate with the Monetary Authority as an active component of the protection network device, contributing decisively to protect the small saver, promote the stability of the National Financial System and prevent a systemic bank crisis.

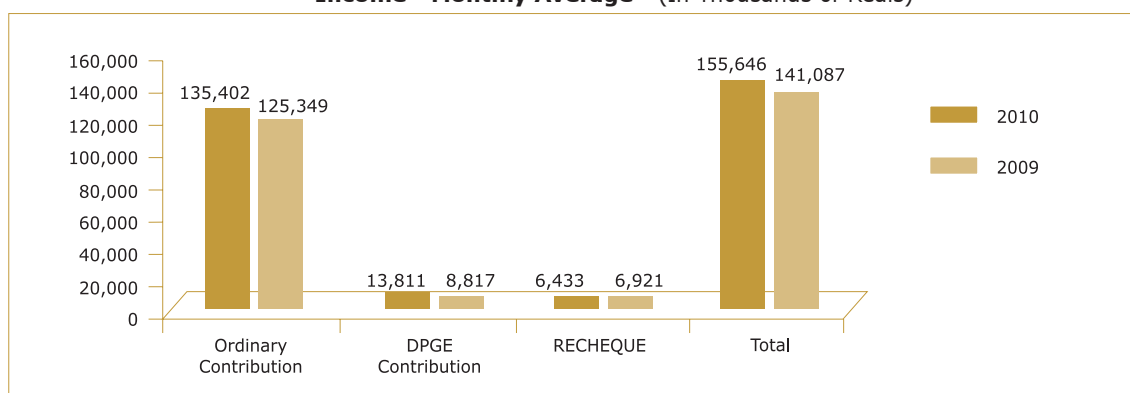
## Bank Resolution Foundations

Financial institutions are the core of the financial system and operate as the bridge between investors and depositors, as they allow the transition of savings into investments in companies, and increase the consumption of society. As a result, the healthy operation of the institution is fundamental to guarantee the economic liquidity and the absence of risk of cash available in circulation. Therefore, a surge of withdrawals from a bank may easily contaminate other banks, and may generate credit freezing or payment discontinuation. These effects may cause an economic slowdown and, in more serious cases, an economic depression. To avoid these effects, most countries have adopted procedures to help banks facing difficulties. The acknowledgement and determination that a bank is or will be in serious financial difficulties should be made in advance and based on well-defined criteria by the members of the bank protection network, with power and operating independence to act, as instructed by Principle 15 of the Core Principles for Effective Deposit Insurance Systems, prepared by the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI). The purpose of these guidelines for previous intervention in financial institutions is to ensure the stability of the financial system and minimize possible losses for investors and depositors. Such an intervention may be caused by governance and/or solvency issues. When the intervention is caused by governance issues, supervisory authorities may intervene by implementing surveillance on management actions, and may even determine the need for termination of people/institutions involved. This type of intervention may occur in the case of a weaknesses and inadequacy of existing accounting and internal control systems up to suspected delict, fraud or money laundering. On the other hand, intervention caused by solvency issues may occur when the authority detect the possibility of harm to the institution's equity. In general, necessary measures are taken by the Supervisor with the support and funds of the deposit insurance system operating in the country, when/where applicable. The fact that the society became aware of the Event Notice published on November 9, 2010 by management of Banco PanAmericano S.A, disclosing the information that accounting irregularities and inconsistencies had been verified, contributed, inevitably and necessarily, to the participation of the FGC -in the remediation process and equity rebalance of that Bank.

## Financial Performance

**Income** - The income, to pay for the guarantees to be provided by FGC, as determined in its Statutory and regulatory rulings, derives from ordinary monthly contributions and special contributions from the Time 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. Ordinary contributions presented a monthly average of R\$ 135,402 thousand (R\$ 125,349 thousand in 2009) and the special contribution (DPGE) presented a monthly average of R\$ 13,811 thousand (R\$ 8,817 thousand, monthly average from June to December 2009). 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\$ 6,433 thousand (R\$ 6,921 thousand in 2009). The average monthly amounts from these different sources of income was R\$ 155,646 thousand (R\$ 141,087 thousand in 2009), excluding financial income.

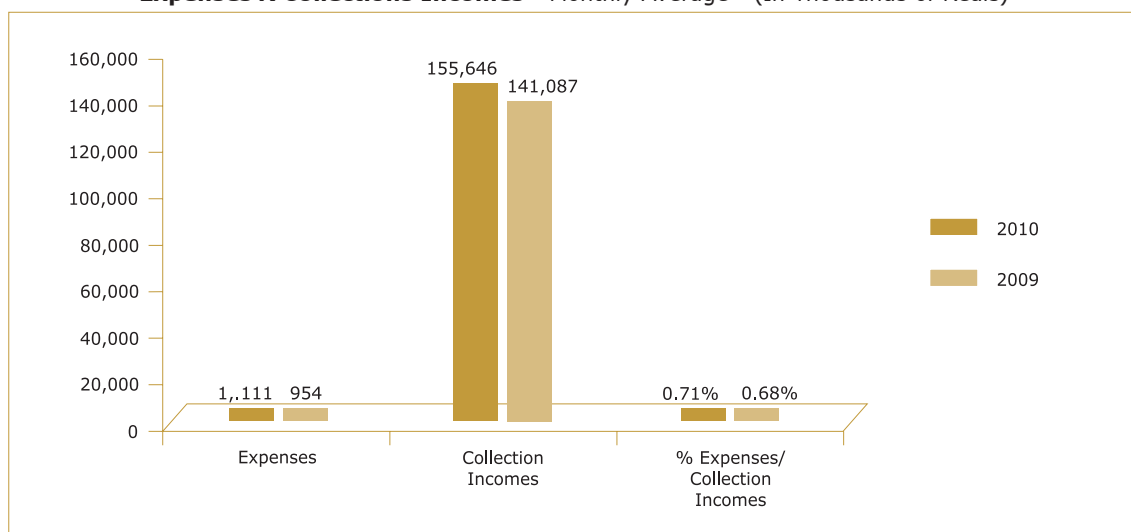
**Income - Monthly Average - (In Thousands of Reais)**



Note: In 2009, the monthly average of DPGE contributions relates to the period from June to December.

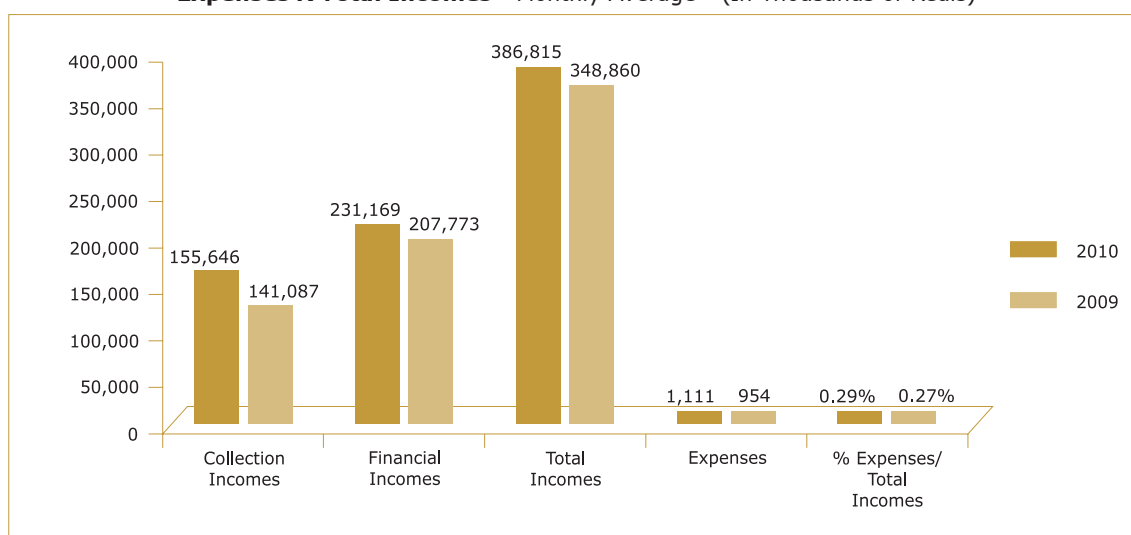
**Expenses** - The average monthly amounts incurred by FGC for operational expenses (personnel, general and administrative) were R\$ 1,111 thousand, equivalent to 0.71% of the average monthly income (R\$ 954 thousand, equivalent to 0.68% on the monthly average of the revenue collected in 2009).

**Expenses X Collections Incomes** - Monthly Average - (In Thousands of Reais)



**Expenses X Collections and Financial Incomes** - Expenses represent 0.29% of income (0.27% in 2009). Income includes the monthly averages for contributions and RECHEQUE, for the amount of R\$ 155,646 thousand, (R\$ 141,087 thousand in 2009), plus the monthly average financial income, for the amount of R\$ 231,169 thousand (R\$ 207,773 thousand in 2009) totaling R\$ 386,815 thousand (R\$ 348,860 thousand in 2009).

**Expenses X Total Incomes** - Monthly Average - (In Thousands of Reais)



#### Recovery of Guarantees Provided

FGC, was initially created to provide guarantees for credits against its member institutions, in accordance with its Statutory and other regulatory norms, extending the scope of its activities by coordinating, as the commissioner, the specific proposal made in a Public Offer to acquire the unsecured credits, offering 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 in the process of extrajudicial liquidation since 1998, the opportunity to assign the total credit rights to the respective assets. In general terms, the proposal to pay the remaining unsecured creditors from the BMD Group was made viable through adhesion of the creditors, representing 90% of the total balances. In order to support these payments, funds amounting to R\$ 169 million from BMD group companies, which are under extrajudicial settlement, were used, as well as funds from the controlling shareholders, in the total contribution amount of R\$ 26,9 million to FGC. FGC offered, through the specific proposal to creditors from the liquidating companies that adhered to the proposal, the alternative between receiving current cash payments or future payments, in accordance with the terms in the publication of the Public Offer advertised in the daily national newspapers and the Federal Official Gazette. Provisions and the necessary guarantees were registered for the preferential and privileged credits pending administrative or judicial decisions. It is important to highlight the participation of the Public Prosecution Service for the State of São Paulo, which was fundamental in implementing this project. This year, R\$ 59,288 thousand was recovered, of which R\$ 54,721 thousand was from Banco BMD S.A., against expenses of R\$ 108 thousand with credit guarantees (R\$ 72 thousand in 2009).

#### Systems Volumes

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

## Total System - Comparison Dec/2010 and Dec/2009 per Bracket

Bracket (Amounts in R\$)	Dec / 2009				Dec / 2010					
	From	to	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total
0.01	5,000.00		135,788,404	89.86%	56,525	5.37%	144,118,910	89.09%	62,425	5.22%
5,000.01	10,000.00		5,664,270	3.75%	39,996	3.80%	6,433,144	3.98%	45,496	3.80%
10,000.01	15,000.00		2,588,602	1.71%	31,533	3.00%	2,982,962	1.84%	36,348	3.04%
15,000.01	20,000.00		1,480,082	0.98%	25,581	2.43%	1,714,881	1.06%	29,646	2.48%
20,000.01	25,000.00		1,011,783	0.67%	22,549	2.14%	1,175,648	0.73%	26,205	2.19%
25,000.01	30,000.00		697,376	0.46%	19,071	1.81%	814,554	0.50%	22,277	1.86%
30,000.01	35,000.00		540,778	0.36%	17,486	1.66%	632,191	0.39%	20,444	1.71%
35,000.01	40,000.00		405,962	0.27%	15,178	1.44%	476,768	0.29%	17,825	1.49%
40,000.01	45,000.00		341,583	0.23%	14,471	1.38%	398,354	0.25%	16,881	1.41%
45,000.01	50,000.00		276,729	0.18%	13,122	1.25%	321,017	0.20%	15,227	1.27%
50,000.01	60,000.00		417,633	0.28%	22,793	2.17%	494,958	0.31%	27,263	2.27%
60,000.01	70,000.00		292,982	0.19%	18,954	1.80%	345,012	0.21%	22,413	1.87%
<b>Subtotal above R\$ 70,000.00</b>			<b>149,506,184</b>	<b>98.94%</b>	<b>297,259</b>	<b>28.25%</b>	<b>159,908,399</b>	<b>98.85%</b>	<b>342,450</b>	<b>28.61%</b>
<b>Subtotal above R\$ 70,000.00</b>			<b>1,596,581</b>	<b>1.06%</b>	<b>755,158</b>	<b>71.75%</b>	<b>1,853,145</b>	<b>1.15%</b>	<b>854,057</b>	<b>71.39%</b>
<b>Total</b>			<b>151,102,765</b>	<b>100.00%</b>	<b>1,052,417</b>	<b>100.00%</b>	<b>161,761,544</b>	<b>100.00%</b>	<b>1,196,507</b>	<b>100.00%</b>
<b>Charge Dec/09 to Dec/10</b>							<b>7.05%</b>		<b>13.69%</b>	
<b>Amount Guaranteed</b>					<b>409,020</b>				<b>472,171</b>	
<b>Charge Dec/09 to Dec/10</b>									<b>15.44%</b>	

## Time Deposit With Special Guarantee - DPGE

Bracket (Amounts in R\$)	Dec / 2009				Dec / 2010					
	From	to	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total	Number of Clients	% of Total	Amounts (R\$ Million)	% of Total
1,000.00	1,000,000.00		1,878	40.19%	667	4.67%	1,946	33.69%	781	4.04%
1,000,000.01	5,000,000.00		1,823	39.01%	3,956	27.71%	2,530	43.80%	5,618	29.03%
5,000,000.01	10,000,000.00		499	10.68%	3,240	22.70%	713	12.34%	4,820	24.91%
10,000,000.01	15,000,000.00		310	6.63%	3,666	25.68%	388	6.72%	4,696	24.27%
15,000,000.01	20,000,000.00		163	3.49%	2,747	19.24%	199	3.45%	3,434	17.75%
<b>Subtotal</b>			<b>4,673</b>	<b>100.00%</b>	<b>14,276</b>	<b>100.00%</b>	<b>5,776</b>	<b>100.00%</b>	<b>19,349</b>	<b>100.00%</b>
<b>Amount Guaranteed - DPGE</b>					<b>14,276</b>				<b>19,349</b>	
<b>Charge Dec/09 to Dec/10</b>									<b>35.54%</b>	
<b>Total</b>			<b>151,107,438</b>	<b>100.00%</b>	<b>1,066,693</b>	<b>100.00%</b>	<b>161,767,320</b>	<b>100.00%</b>	<b>1,215,856</b>	<b>100.00%</b>
<b>Total Amount Guaranteed</b>					<b>423,296</b>				<b>491,520</b>	
<b>Charge Dec/09 to Dec/10</b>									<b>16.12%</b>	

## Comparison per Product (R\$ Million)

	Dec/2009		% of Total	Dec/2010		% of Total	(Dec-10/ Dec-09)
<b>Savings</b>	319,414		29.94%	379,128		31.18%	18.69%
<b>Demand Deposits</b>	157,499		14.76%	174,186		14.33%	10.59%
<b>Time Deposits</b>	550,493		51.61%	603,300		49.62%	9.59%
<b>DPGE</b>	14,276		1.34%	19,349		1.59%	35.54%
<b>Deposit Investments</b>	3,174		0.30%	3,250		0.27%	2.39%
<b>Mortgage Bills</b>	1,703		0.16%	1,983		0.16%	16.46%
<b>Exchange Bills</b>	2,761		0.26%	3,309		0.27%	19.86%
<b>Real State Bills</b>	0		0.00%	0		0.00%	0.00%
<b>Real State Credit Bills</b>	15,449		1.45%	29,218		2.40%	89.13%
<b>Deposits Not Moved by Checks</b>	1,924		0.18%	2,133		0.18%	10.85%
<b>Total</b>	<b>1,066,693</b>		<b>100.00%</b>	<b>1,215,856</b>		<b>100.00%</b>	<b>13.98%</b>

Source: DESIG/DINFO (BACEN) and FGC

### Information Security

FGC is supported by a robust IT infrastructure and protection devices intended to ensure the availability, integrity and confidentiality of information trusted to it by the parties involved in our activities, including management, employees and hired autonomous workers and service providers. This year, FGC put forward its information security standard and policy program intended to disseminate the matter and raise the awareness of employees, allowing FGC to comply with its institutional mission of contributing to protect the small saver, promote the stability of the National Financial System and prevent a systemic bank crisis.

### Acknowledgements

We are grateful to our member institutions, the public in general and the Brazilian monetary authorities for honoring us with their trust. We would like to extend our special thanks to Sr. Luiz Carlos Trabuco Cappi, a member of the Management Board, who resigned from the board during the first semester.

December, 31

In Thousands of Reais

Assets	2010	2009
<b>Current assets</b>		
Banks - Checking accounts	1,310	2,281
Financial investments and securities (Note 4)	26,250,573	25,804,348
Contributions receivable (Note 5)	62,545	46,643
Other receivables	6,678	13,881
	<u>26,321,106</u>	<u>25,867,153</u>
<b>Noncurrent assets</b>		
<b>Financial investments and securities (Note 4)</b>	<u>367,696</u>	<u>278,740</u>
<b>Notes and credits receivable</b>		
Mortgage certificates	3,368	5,494
Mortgage contracts	13,163	13,133
Credits with FCVS	1,003,844	1,364,074
Credits with FCVS To be defined	72,293	81,047
Credits with real estate credit companies	189,972	177,718
Legal deposits	37,287	37,032
Notes and credits receivable (Note 12.a)	3,800,000	-
Provision for adjustment to fair value of notes and credits (Note 12.a) (3,350,000)	-	-
Other notes and credits receivable	465,137	130,499
Provision for adjustment to fair value of notes and credits	(138,193)	(140,029)
Allowance for doubtful receivables (Note 6)	(339,112)	(210,568)
	1,757,759	1,458,400
	<u>2,125,455</u>	<u>1,737,140</u>
Property and equipment	891	171
Deferred charges	15	29
<b>Total assets</b>	<u>28,447,467</u>	<u>27,604,493</u>

Liabilities	2010	2009
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable to suppliers	1,761	1,156
Other liabilities (Note 12.a)	1,300,000	35,821
Voluntary advances of contributions (Note 8)	1,074,884	1,074,884
Salaries and social charges	45	45
	<u>2,376,690</u>	<u>1,111,906</u>
<b>Long-term liabilities</b>		
<b>Other liabilities</b>		
Voluntary advances of contributions (Note 8)	1,970,620	3,045,504
Contractual liabilities EMGEA (Note 7)	-	393,811
Due to third parties (Note 12.b)	46,622	41,760
Others	29,377	27,500
	<u>2,046,619</u>	<u>3,508,575</u>
<b>Provision for contingencies</b>		
Provision for contingencies (Note 3.f)	326,500	324,897
	<u>2,373,119</u>	<u>3,833,472</u>
<b>Net equity</b>		
Accumulated surplus	23,697,658	22,659,115
<b>Total liabilities</b>	<u>28,447,467</u>	<u>27,604,493</u>

## Statement of Income and Changes in Net Equity

	2010	2009
<b>Statement of income and expenses</b>		
<b>Income (expenses) from collections</b>		
Monthly contributions	1,624,823	1,504,187
DPGE monthly contributions	165,730	61,716
Contributions from RECHEQUE	77,192	83,055
Expenses with collection services	(3,860)	(4,153)
<b>Net income from collections</b>	<u>1,863,885</u>	<u>1,644,805</u>
<b>Operating income (expenses)</b>		
Guarantees provided for subrogated credits	59,180	(72)
General and administrative expenses	(11,966)	(10,112)
Personnel	(1,370)	(1,330)
Expenses from credits with SFH	(21)	(70)
Other operational expenses	(9,836)	(6,526)
Provisions and equity adjustments (Note 10.a)	(3,544,561)	36,787
Result in the liquidation of operation (Note 7)	(67,750)	-
Financial expenses (Note 10.b)	(23,045)	(32,107)
Financial income (Note 10.c)	2,774,027	2,493,276
	<u>(825,342)</u>	<u>2,479,845</u>
<b>Surplus for the year</b>	<u>1,038,543</u>	<u>4,124,651</u>
<b>Statements of changes in net equity</b>		
Opening balance	22,659,115	18,534,464
Surplus for the year	1,038,543	4,124,651
<b>Closing balance</b>	<u>23,697,658</u>	<u>22,659,115</u>

## Statement of Cash Flows Indirect Method

	2010	2009
<b>Cash flows from operational activities</b>		
Surplus for the year	1,038,543	4,124,651
<b>Adjustments to reconcile the results with the cash and cash equivalents generated from operational activities</b>		
Depreciation and amortization	86	66
<b>Variations in assets and liabilities</b>		
(Increase) in notes and credits receivable	(299,359)	(262,026)
(Increase)/decrease in financial investments and securities	(88,956)	6,549,924
(Increase) in contributions receivable and other credits	(8,699)	(30,043)
Increase/(decrease) in other liabilities	1,264,784	(2,157)
(Decrease) in voluntary advances of contributions	(1,074,884)	(1,074,884)
(Decrease) in contractual liabilities and others	(387,072)	(115,172)
Increase in provision for contingencies	1,603	25,647
<b>Net cash generated from operational activities</b>	<u>446,046</u>	<u>9,216,006</u>
<b>Cash flows from investment activities</b>		
Acquisition of fixed assets	(792)	(22)
<b>Net cash applied in investment activities</b>	<u>(792)</u>	<u>(22)</u>
<b>Increase in cash and cash equivalents</b>	<u>445,254</u>	<u>9,215,984</u>
<b>Changes in net cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	25,806,629	16,590,645
Cash and cash equivalents at the end of the year (Note 11)	26,251,883	25,806,629
<b>Increase in cash and cash equivalents</b>	<u>445,254</u>	<u>9,215,984</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 6, 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\$ 70 per individual or corporate entity, against an associated institution or against all of the institutions from the same financial conglomerate. Are objects of guarantee provided by FGC operations of demand deposits, deposits in investment accounts, savings deposits, time deposits and deposits in non-checking accounts, aimed at registering and controlling the flow of funds from providing services related to payments of wages, 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\$ 70 for their credits with the same associated institution.

Resolution 3,692, of March 26, 2009, altered by Resolutions 3,793, of September 28, 2009, and 3,931, of December 3, 2010, 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 of April 01, 2009, time deposits, without issuing certificates, with special guarantees, Time 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, based on the situations noted above in items a, b and c.

Consequently, FGC maintains a guarantee of R\$ 70 for the credits provided by article 2 of Annex II to Resolution 3,251/04 and another guarantee up to the amount of R\$ 20,000 for the funding from DPGE, provided by Resolution 3,692/09, 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 statutory 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 time 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);
- Recovery of credit rights from the guarantees provided; and
- 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 the Management Council from FGC to set the monthly contribution to a fixed rate of 0.0125%, and through Resolution 3,692/09, authorized the special monthly contribution to be fixed at 0.0833% for associated institutions that choose to fund the 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.

Estimates and assumptions, considered prudent by Management, were used in the preparation of the financial statements, including the measurement of securities and receivables at fair value; the provision for doubtful mortgage certificate receivables, credits with Wages Variations Compensation Fund - FCVS, to the Transferor Real Estate Loan Societies, 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 as memorandum accounts and are subsequently renegotiated, the balances are included in the net equity account and the respective provision is retained. The balance is recognized in the statement of income and expenses only when the balances are effectively received and/or in the case of credits, received in lieu of payment from FCVS and are accepted by Caixa Econômica Federal.

### b. *Cash and cash equivalents*

Include cash accounts and short term, highly liquid investments, which are readily convertible to a known amount of cash and may 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) *Held for trading*

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

#### (ii) *Receivables*

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

#### (iii) *Held to maturity*

These are financial assets that cannot be classified as loans and receivables since they are quoted on an active market and are not classified as held for trading instruments as Management acquires these financial assets with the intention and financial ability to hold them in the portfolio until maturity. They are valued at acquisition cost, any income earned on these instruments are recognized in the surplus for the year account.

#### (iv) *Available for sale*

Financial 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 and expenses in the financial income account. 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 valuation techniques. These techniques include: (a) the use of recent operations agreed with third parties; (b) pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable; and (c) analyze of discounted cash flows; these techniques utilize the greatest possible use of information available on 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 adjustment to fair value 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.

#### **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 defaults of the credits and the feasible economic ability of counterparties 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 counterparties, considering, individually, the level of arrears of installment payments and the balances not covered by FCVS.

#### **d. Property and equipment and deferred charges**

Originally recorded at cost. Depreciation is provided using the straight-line method at the 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**

Contingent assets are recognized only when there is valid evidence 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 legal advisors, within the categories of possible, probable or remote, and provisions are registered for those contingencies that can be measured and are classified as probable.

FGC has recorded provisions for contingencies, which are mainly legal contingences, based on best estimates, for the amount of R\$ 326,500 (2009 - R\$ 324,897), for which it has R\$ 37,287 (2009 - R\$ 37,032) in legal deposits. The balances are adjusted based on the respective interest and indexes.

## **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 Bank Deposit Certificates (CDB), which are classified as held to maturity, and at December 31, consisted of the following:

	<b>2010</b>	<b>2009</b>
<b>Repurchase operations (i)</b>		
Banco do Brasil S.A.	15,276,846	13,071,000
Caixa Econômica Federal	5,783,520	5,325,111
Banco Bradesco S.A. (for third parties)	20,371	45,779
Banco Itaú S.A. (for third parties)	33,003	-
	<u>21,113,740</u>	<u>18,441,890</u>
<b>Bank Deposit Certificate</b>		
Bank Deposit Certificate - CDB (iv)	272,572	248,314
Financial investments - CDB	-	94,121
	<u>272,572</u>	<u>342,435</u>
<b>Public Federal Bills</b>		
National Financial Treasury Bills - LFT	-	2,701
CVS (ii)	28,834	30,426
	<u>28,834</u>	<u>33,127</u>
<b>Shares to pay Third Parties</b>		
Shares to pay third parties	12,916	-
	<u>12,916</u>	<u>-</u>
<b>Investment Fund Quotas</b>		
Investment fund (iii)	5,190,207	7,265,636
<b>Total</b>	<u>26,618,269</u>	<u>26,083,088</u>
Current assets	26,250,573	25,804,348
Noncurrent assets	<u>367,696</u>	<u>278,740</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) Securities arising from the conversion of credits with FCVS into CVS securities;
- (iii) 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);
- (iv) Classified as securities held to maturity.

The market valuations utilized are equal for the held for trading investments and securities available for sale.

### **b. Custody of securities, shares and investment fund quotas**

The public securities are held by the custodian, System for Settlement and Custody (SELIC), and the over the counter (OTC) instruments and derivatives are held by the custodian CETIP S.A., private securities (CDBs) are held with the CETIP; shares with Banco Bradesco S.A. and the investment fund shares are held with the respective administrators.

## **5 Contributions Receivable**

The ordinary monthly contributions and those that refer to time 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, 2010 was R\$ 62,545 (2009 - R\$ 46,643).



## 6 Notes and Credits Receivable - Noncurrent Assets

Securities and receivables classified as loans and receivables are as follows:

Description	Value at 31.12.10	Provision for		Net value at	
		Doubtful receivables	Market value adjustment	31.12.10	31.12.09
<b>Mortgage certificates</b>	3,368	(1,343)	-	2,025	3,446
<b>Mortgaged contracts</b>	13,163	(2,421)	-	10,742	11,479
<b>Credits with FCVS</b>					
Pre-novated (i)	218,744	-	-	218,744	157,238
Ratified (i)	380,243	-	-	380,243	790,195
Validated (i)	379,908	-	-	379,908	373,837
To be validated (i)	24,949	-	-	24,949	42,804
Provision for adjustment to fair value	-	-	(138,193)	(138,193)	(140,029)
Allowance for doubtful receivables	-	(151,368)	-	(151,368)	(82,201)
<b>Credits with FCVS to be defined</b>	72,293	(72,293)	-	-	-
<b>Credits with real estate credit companies</b>	189,972	(98,249)	-	91,723	146,671
<b>Court deposits</b>	37,287	-	-	-	37,032
<b>Securities and receivables (Note 12.a)</b>	3,800,000	-	(3,350,000)	450,000	-
<b>Others</b>	465,137	(13,438)	-	451,699	117,928
Total in 2010	<u>4,285,064</u>	<u>(339,112)</u>	<u>(2,188,193)</u>	<u>1,757,759</u>	
Total in 2009					<u>1,458,400</u>

(i) The variation in the account balances can be attributed to the affects of the adjustment in the valuation of the credit conversion processes with FCVS, with the recognition of the effects of Law 10,150/00 and payments/receipts in FCVS credits (homologated or not) related to contract obligations and rights (Note 7). The conversion of credits into CVS securities resulted in the receipt in kind of R\$ 3,576 (2009 - R\$ 12,577) for the year.

## 7 Payments and Receipts in FCVS Credits

On June 1, 2010, FGC settled its contractual obligations with EMGEA – Asset Management Company, for the amount of R\$ 404,309. The settlement was made by means of payment in kind of homologated FCVS credits, audited and with the amounts recognized by the Fund. For questions of trading and equalizing the Selic rate to the future rate, these credits generated income of R\$ (67,750).

On December 29, 2010, through an agreement with the debtor Delfin Rio S.A Crédito Imobiliário, FGC negotiated the settlement of accounts receivable and the extinction of the existing dispute, resulting in the receipt of R\$ 91,620 received on November 1, 2010, as follows: R\$ 85,564 in FCVS credits already homologated, R\$ 4,056 in FCVS credits not yet homologated and R\$ 2,000 in currency, divided into six half-annual installments.

## 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, 2010 the balance for voluntary advances of contributions amounted to R\$ 3,045,504 (2009 - R\$ 4,120,388).

## 9 Financial Instruments

As of December 31, 2010 and 2009, the carrying amounts and respective fair values of financial instruments (assets and liabilities) presented no differences.

## 10 Operating Income (expenses)

a. Provisions and equity adjustments		
Description	2010	2009
Net effect of the movements from allowance for doubtful receivables	(142,392)	17,259
Effect from adjustment to present value of notes and credit receivables	(50,822)	44,915
Provision for civil contingencies	(1,347)	(11,012)
Recognition of a provision for special operation (Note 12.a)	(3,350,000)	-
Provision for contingencies and contractual obligations	-	(14,375)
<b>Total</b>	<b>(3,544,561)</b>	<b>36,787</b>
b. Financial expenses		
Description	2010	2009
Interest and price-level restatement - Contractual liabilities	12,581	31,844
Others	10,464	263
<b>Total</b>	<b>23,045</b>	<b>32,107</b>
c. Financial income		
Description	2010	2009
Income from financial investments	2,565,619	2,386,663
Price-level restatement of credits with FCVS	88,678	101,895
Other	119,730	4,718
<b>Total</b>	<b>2,774,027</b>	<b>2,493,276</b>

## 11 Statements of Cash Flow

The composition of cash and cash equivalents at December 31 for purposes of the statement of cash flows is presented below:

Description	2010	2009
Banks - Checking accounts	1,310	2.281
Financial investments - Repurchase operations	21,060,366	18,441,890
Financial investments - Investment fund	5,190,207	7,268,337
Financial investments - CDB	-	94,121
<b>Total</b>	<b>26,251,883</b>	<b>25,806,629</b>

## 12 Other Information

- a. The participation of the Fundo Garantidor de Créditos - FGC in the remediation process and equity rebalance of Banco PanAmericano S.A. (Bank) is fully reflected in FGC's financial statements as of December 31, 2010, corresponding to financial transactions amounting to R\$ 2,500 million deposited directly by FGC in the Bank's "shareholders deposits" account on behalf of its controlling shareholders, assuming the initial loss resulting from the adjustments of certain accounting inconsistencies verified in the Bank. When executing supplementary procedures of data survey, analysis, checking, reconciliation and review of operating controls and accounting records, the current Bank's management determined the necessity of an additional R\$ 1,300 million, which is recorded in FGC liabilities as of December 31, 2010 and was contributed by FGC in 2011. As of December 31, 2010, the financial instrument totals R\$ 3,800 million, and was adjusted by management's best efforts to reflect its fair value, which totals R\$ 450 thousand.
- b. 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\$ 173,075, resulting in a balance outstanding R\$ 46,622, registered as payments for third parties, representing the creditors that adhered to the term module, with financial settlement anticipated for December 14, 2016 and for those that had not formalized their adhesion, by December 31, 2010.  
For the third party payments, FGC received shares from BM&F Bovespa S.A. - Securities, Commodities and Future exchange, allocated for payment of the creditors of BMD S.A. Corretora de Câmbio e Valores Mobiliários that had formalized their adhesion based on immediate payment. At the end of the year of 2010, the value of these shares amounted to R\$ 12,917.
- c. 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, 2010 corresponding to R\$ 3,561,307 (2009 - R\$ 3,620,486). 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\$ 554,289 (2009 - R\$ 2,569,299).
- d. As of December 31, 2010 and 2009, FGC comprehensive income, provided for in CPC (Accounting Pronouncement Committee) Pronouncement 26, was equal to the income for the year.

## 13 Subsequent Events

Regarding the remediation process and equity rebalance of Banco PanAmericano:

- a. Correspond to financial transactions amounting to R\$ 2,500 million deposited directly by FGC in the Bank's "shareholders deposits" account on behalf of its controlling shareholders, assuming the initial loss resulting from the adjustments of certain accounting inconsistencies verified in the Bank.
- b. When performing supplementary procedures of data survey, analysis, checking, reconciliation and review of operating controls and accounting records, the current Bank's management determined the necessity of an additional of R\$ 1,300 million, recorded in FGC liabilities as of December 31, 2010 and contributed by FGC in 2011. As of December 31, 2010, the financial instrument totals R\$ 3,800 million and was adjusted by management's best efforts to reflect its fair value, which totals R\$ 450 thousand.

As of January 31, 2011, the former controlling shareholder of the Bank sold the totality of its shares in Banco PanAmericano S.A. capital and transferred the shareholding control of the Bank to Banco BTG Pactual S.A. As a result, FGC received as payment in kind for the Bank's remediation transactions, the transfer of the right to receive the amount of R\$ 3,800 million, adjusted in conformity with item b above.

**BOARD OF DIRECTORS****Members**

**President** - Gabriel Jorge Ferreira  
 Aldemir Bendine  
 Fabio Colletti Barbosa  
 Julio de Siqueira Carvalho de Araujo  
 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 Opinion**

The members of the Fiscal Council of the Fundo Garantidor de Créditos - FGC, in a meeting held at the FGC's seat at, Av. Brigadeiro Faria Lima, 201 - 12th Floor, in the City of São Paulo, SP, on the 21st day of March, 2011, 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 period ended on December 31, 2010, 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 21, 2011.

Helio Ribeiro Duarte

Manoel Felix Cintra Neto

**Independent Auditors' Report on the Financial Statements**

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

We have examined the individual financial statements of Fundo Garantidor de Créditos - FGC, which include the balance sheet at December 31, 2010 and the related statement of income, changes in shareholders' equity and cash flows, for the year then ended, and a summary of the main accounting practices and other notes to the financial statements.

**Management's responsibility towards the financial statements**

Management from the Fundo Garantidor de Créditos - FGC is responsible for the preparation and adequate presentation of these financial statements in accordance with accounting practices adopted in Brazil and for the internal controls that they consider necessary to ensure the financial statements are prepared free of significant distortions, irrespective of whether or not these are caused by fraud or errors.

**The responsibility of the independent auditors**

Our responsibility is to express an opinion on these financial statements based on our audit, undertaken in accordance with Brazilian and international auditing standards. These standards require compliance with ethical requirements by the auditors and that the audit be planned and executed with the objective of obtaining reasonable assurance that the financial statements are free from material distortions. An audit involves the execution of procedures selected to obtain evidence for the values and disclosures presented in the financial statements. The procedures selected depend on the auditor's judgment, including an evaluation of the risks of significant distortions in the financial statements, irrespective of whether these are caused by fraud or errors. For this risk evaluation the auditor considers Fundo Garantidor de Créditos - FGC's internal controls relevant for the preparation and adequate presentation of the financial statements to plan the audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of Fundo Garantidor de Créditos - FGC's internal controls. An audit also includes an evaluation of the adequacy of the accounting practices adopted and the reasonableness of the accounting estimates made by management, and an evaluation of the presentation of the financial statements taken as a whole. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

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, 2010, the results of its operations, and its cash flows for the year then ended, in conformity with accounting practices adopted in Brazil.

**Emphasis**

As disclosed in Note 12.a, the participation of the FGC - Fundo Garantidor de Créditos in the remediation process and equity rebalance of Banco PanAmericano S.A. (Bank), that occurred in 2010, is fully reflected in FGC's financial statements as of December 31, 2010, corresponding to financial transactions amounting to R\$ 2,500 million deposited directly by FGC in the Bank's "shareholders deposits" account on behalf of its controlling shareholders, thus assuming the initial loss resulting from the adjustments of certain accounting inconsistencies verified in the Bank. When performing the supplementary procedures of data survey, analysis, checking, reconciliation and review of operating controls and accounting records, the current Bank's management determined the necessity of an additional R\$ 1,300 million, totaling R\$ 3,800 million, and adjusted by the best management efforts to reflect its fair value, which totals R\$ 450 thousand.

São Paulo, March 14, 2011.



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

**Alberto Spilborghs Neto**  
Accountant CRC 1SP167455/O-0