12-1-2011

Annual Report, Report from the Administration, December 2011

Fundo Garantidor de Crèditos

Dear Members, *December / 2011*

Institutional Mission

Fundo Garantidor de Créditos - FGC is a non-profit, private civil association and member of the Bank Protection Network. Its institutional mission is to assist the monetary authority to protect small investors, to foster the stability of the National Financial System and to prevent systemic banking crises. Its objective is to provide guarantees to depositors of member institutions, in the event a special scheme or insolvency is decreed, in special situations, via a prior agreement between the Brazilian Central Bank and FGC, in the terms of Resolution 3,251 of December 16, 2004, as amended by Resolutions 3,400 of September 06, 2006 and 3,656 of December 17, 2008 by the National Monetary Council (CMN).

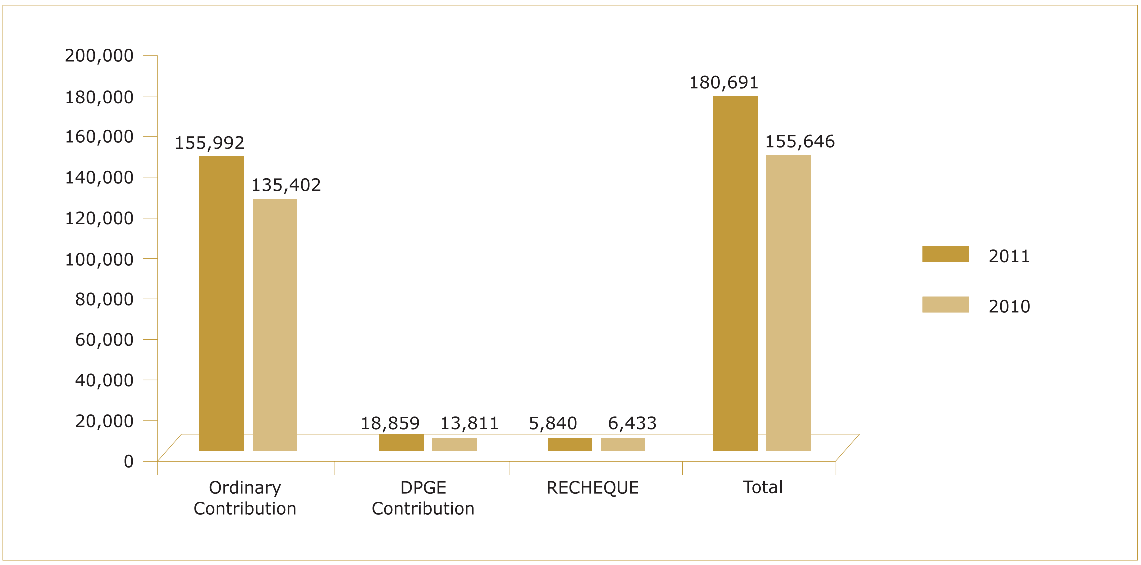
Bank Resolution Foundations

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.

Financial Performance

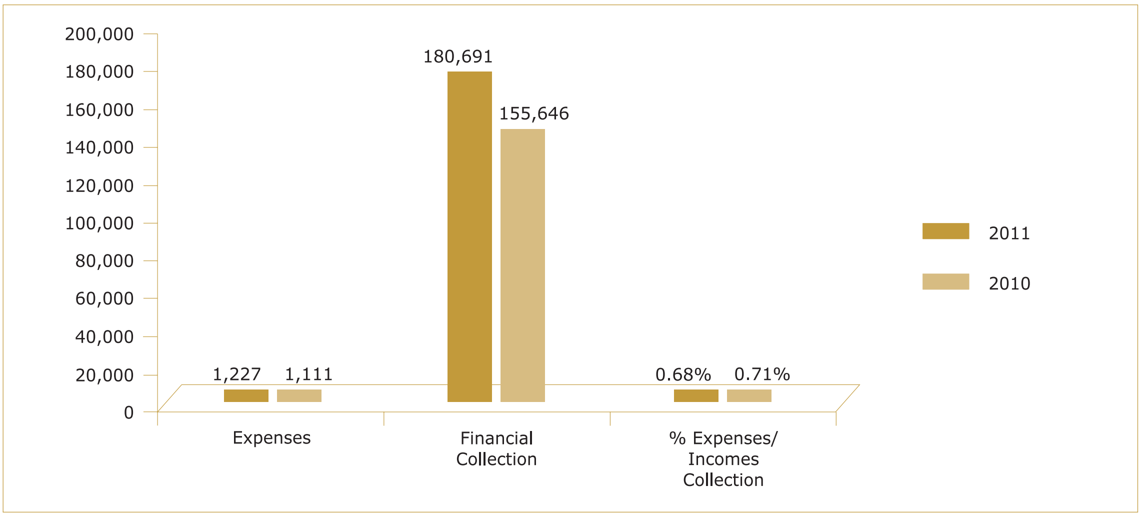
Income - The income, to pay for the guarantees to be provided by FGC, as determined in its Statutory and regulatory rulings, derives from ordinary monthly contributions and special contributions from the Time Deposits with Special Guarantee (DPGE), made by the associated institutions, from the national financial market, including State, private and foreign, and the RECHEQUE (Reserve to Promote Currency Stability and the Use of Checks) fees. In exercise, ordinary contributions presented a monthly average of R$ 155,992 thousand (R$ 135,402 thousand in 2010) and the special contribution (DPGE) presented a monthly average of R$ 18,859 thousand (R$ 13,811, thousand in 2010). 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$ 5,840 thousand (R$ 6,433 thousand in 2010). The average monthly amounts from these different sources of income was R$ 180,691 thousand (R$ 155,646 thousand in 2010), excluding financial income.

Income - (Monthly Average in Thousands of Reais)



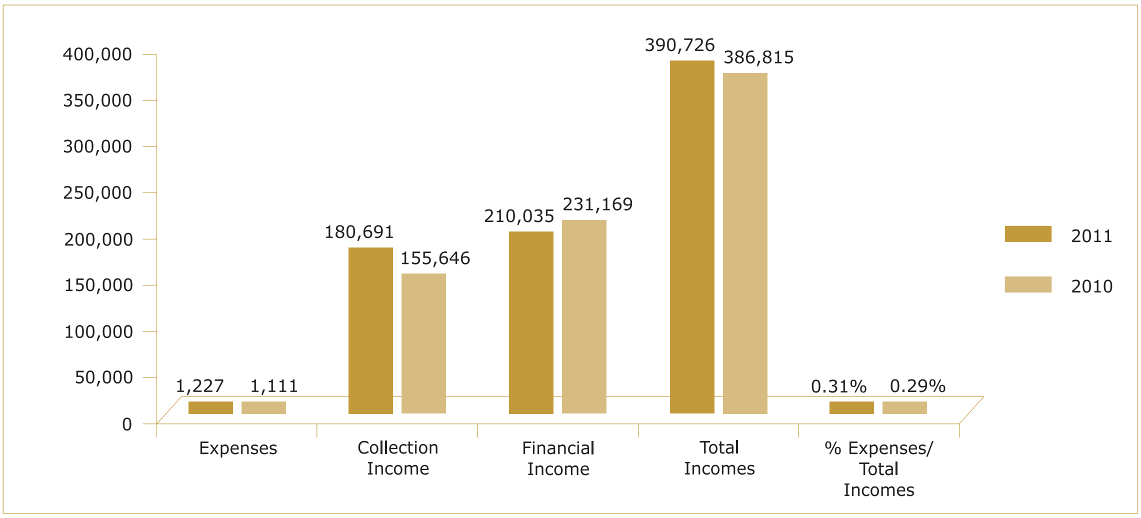
Expenses - The average monthly amounts incurred by FGC for operational expenses (personnel, general and administrative) were R$ 1,227 thousand, equivalent to 0.68% of the average monthly income (R$ 1,111 thousand, equivalent to 0.71% on the monthly average of the revenue collected in 2010).

Expenses X Collection Incomes - (Monthly Average in Thousands of Reais)



Expenses X Collections Income: Expenses represent 0.31% of income (0.29% in 2010). Income includes the monthly averages for contributions and RECHEQUE, for the amount of R$ 180,691 thousand, (R$ 155,646 thousand in 2010), plus the monthly average financial income, for the amount of R$ 210,035 thousand (R$ 231,169 thousand in 2010) totaling R$ 390,726 thousand (R$ 368,815 thousand in 2010).

Expense X Collection and Fiscal 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 their 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. In this year a total of R$ 1,192,943 thousands was recovered (R$ 59,180 thousands in FY 2010) relating to the amounts received from Banco Bamerindus S.A. - In Extrajudicial liquidation as apportionment to the ordinary creditors and Banco Brasileiro Comercial S.A. - In Extrajudicial liquidation as part payment, minus the amounts paid of the guarantees submitted to the creditors of Banco Morada S.A. and Rótula S.A. Credit, Financing and Investment under Extrajudicial Liquidation, and Oboé Crédito Financiamento e Investimento - Under Intervention.

Volumes of the System

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

Total System - Comparison Dec/2011 and Dec/2010 per Bracket

Bracket (Amounts in R$) From	to	Dec / 2010 Number of Clients	% of Total	Amounts (R$ Million)	% of Total	Dec / 2011 Number of Clients	% of Total	Amounts (R$ Million)	% of Total
0.01	5,000.00	144,118,910	89.09%	62,425	5.22%	155,254,271	89.43%	67,772	4.70%
5,000.01	10,000.00	6,433,144	3.98%	45,496	3.80%	7,012,393	3.71%	49,648	3.50%
10,000.01	15,000.00	2,982,962	1.84%	36,348	3.04%	3,270,552	1.76%	39,905	2.86%
15,000.01	20,000.00	1,714,881	1.06%	29,646	2.48%	1,897,046	1.03%	32,829	2.37%
20,000.01	25,000.00	1,175,648	0.73%	26,205	2.19%	1,306,404	0.71%	29,153	2.11%
25,000.01	30,000.00	814,554	0.50%	22,277	1.86%	909,799	0.50%	24,911	1.82%
30,000.01	35,000.00	632,191	0.39%	20,444	1.71%	707,040	0.39%	22,897	1.67%
35,000.01	40,000.00	476,768	0.29%	17,825	1.49%	533,561	0.29%	19,975	1.46%
40,000.01	45,000.00	398,354	0.25%	16,881	1.41%	446,558	0.25%	18,948	1.39%
45,000.01	50,000.00	321,017	0.20%	15,227	1.27%	359,421	0.20%	17,074	1.26%
50,000.01	60,000.00	494,958	0.31%	27,263	2.27%	561,126	0.30%	31,110	2.25%
60,000.01	70,000.00	345,012	0.21%	22,413	1.87%	391,996	0.22%	25,583	1.88%
Subtotal Up to R$ 70,000.00		**159,908,399**	**98.85%**	**342,450**	**28.61%**	**172,650,167**	**98.79%**	**379,805**	**27.27%**
Subtotal Above R$ 70,000.00		**1,853,145**	**1.15%**	**854,057**	**71.39%**	**2,132,893**	**1.21%**	**952,003**	**72.73%**
Total		**161,761,544**	**100.00%**	**1.196,507**	**100.00%**	**174,783,060**	**100.00%**	**1,331,808**	**100.00%**
Charge Dec/10 to Dec/11						**8.05%**		**11.31%**	
Amount Guaranteed				**472.171**				**529,108**	
Charge Dec/10 to Dec/11								**12.06%**	

Time Deposit With Special Guarantee - DPGE

Bracket (Amounts in R$) From	to	Dec / 2010 Number of Clients	% of Total	Amounts (R$ Million)	% of Total	Dec / 2011 Number of Clients	% of Total	Amounts (R$ Million)	% of Total
1,000.00	1,000,000.00	1,946	33.69%	781	4.04%	2,534	31.42%	1,087	4.11%
1,000,000.01	5,000,000.00	2,530	43.80%	5,618	29.03%	3,792	47.01%	8,895	33.67%
5,000,000.01	10,000,000.00	713	12.34%	4,820	24.91%	1,053	13.06%	7,069	26.76%
10,000,000.01	15,000,000.00	388	6.72%	4,696	24.27%	481	5.96%	5,859	22.18%
15,000,000.01	20,000,000.00	199	3.45%	3,434	17.75%	206	2.55%	3,508	13.28%
Subtotal		**5,776**	**100.00%**	**19,349**	**100.00%**	**8,066**	**100.00%**	**26,418**	**100.00%**
Amount Guaranteed - DPGE				**19,349**				**26,418**	
Charge Dec/10 to Dec/11								**36.53%**	
Total		**161,767,320**	**100.00%**	**1,215,856**	**100.00%**	**174,791,126**	**100.00%**	**1,358,226**	**100.00%**
Total Amount Guaranteed				**491,520**				**555,526**	
Charge Dec/10 to Dec/11								**13.02%**	

Comparison per Product (R$ Million)

	Dec/2010	% of Total	Dec/2011	% of Total	(Dec-11/ Dec-10)
Savings	379,128	31.18%	420,331	30.95%	10.87%
Demand Deposits	174,186	14.33%	168,869	12.43%	(3.05%)
Time Deposits	603,300	49.62%	687,725	50.63%	13.99%
DPGE	19,349	1.59%	26,418	1.95%	36.53%
Deposits Investments	3,250	0.27%	1	0.00%	(99.96%)
Mortgage Bills	1,983	0.16%	2,315	0.17%	16.73%
Exchange Bills	3,309	0.27%	2,969	0.22%	(10.30%)
Real State Bills	0	0.00%	0	0.00%	0.00%
Real State Credit Bills	29,218	2.40%	46,489	3.42%	59.11%
Deposit Not Moved by Checks	2,133	0.18%	3,109	0.23%	45.78%
	1,215,856	**100.00%**	**1,358,226**	**100.00%**	**11.71%**

Source: DIFIS/DESIG/DISIC/SUREC (BACEN) and DPGE.

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 further developed its policies program, information security standards and indicator management.

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 also like to give a special thank you to former director Fabio Colletti Barbosa for his relevant contribution to the management of FGC, as well as the former director Carlos Henrique de Paula, for the important services provided in the past 13 years.

December, 31 — *In Thousands of Reais*

Assets

	2011	2010
Current assets		
Banks - Checking accounts	32,458	1,310
Financial investments and securities *(Note 4)*	15,733,977	26,250,573
Contributions receivable *(Note 5)*	88,772	62,545
Other receivables *(Note 7)*	39,674	6,678
	15,894,881	26,321,106
Noncurrent assets		
Financial investments and securities *(Note 4)*	9,868,351	367,696
Notes and credits receivable - FCVS *(Note 6)*	786,380	853,668
Other notes and credits receivable *(Note 7)*	4,280,442	904,091
	14,935,173	2,125,455
Property and equipment	926	891
Deferred charges	62	15
Total Assets	**30,831,042**	**28,447,467**

Liabilities

	2011	2010
Current liabilities		
Accounts payable to suppliers	1,919	1,761
Other liabilities *(Note 12.d)*	-	1,300,000
Voluntary advances of contributions *(Note 8)*	1,074,884	1,074,884
Salaries and social charges	81	45
	1,076,884	2,376,690
Long-term liabilities		
Other liabilities		
Voluntary advances of contributions *(Note 8)*	895,736	1,970,620
Contractual liabilities and others	273,730	29,377
Due to third parties *(Note 12.a)*	54,712	46,622
	1,224,178	2,046,619
Provision for contingencies		
Provision *(Note 9)*	276,854	326,500
	1,501,032	2,373,119
Net equity		
Accumulated surplus	28,253,126	23,697,658
Total liabilities	**30,831,042**	**28,447,467**

Statement of Income and Changes in Net Equity

	2011	2010
Statement of income and expenses		
Income (expenses) from collections		
Monthly contributions	1,871,906	1,624,823
DPGE monthly contributions	226,309	165,730
Contributions from RECHEQUE	70,074	77,192
Expenses with collection services	(3,504)	(3,860)
Net income from collections	2,164,785	1,863,885
Operating income (expenses)		
Guarantees provided for subrogated credits *(Note 10.a)*	1,192,943	59,180
General and administrative expenses	(12,110)	(11,966)
Personnel	(2,612)	(1,370)
Expenses from credits with SFH	(18)	(21)
Other operational income	28,810	-
Other operational expenses	(41,538)	(9,836)
Provisions and equity adjustments *(Note 10.b)*	(1,261,508)	(3,544,561)
Result in the liquidation of operation	-	(67,750)
Financial expenses *(Note 10.c)*	(33,699)	(23,045)
Financial income *(Note 10.d)*	2,520,415	2,774,027
	2,390,683	(825,342)
Surplus for the year	4,555,468	1,038,543
Statements of changes in net equity		
Opening balance	23,697,658	22,659,115
Surplus for the year	4,555,468	1,038,543
Closing balance	28,253,126	23,697,658

Statement of Cash Flows Indirect Method

	2011	2010
Cash flows from operational activities		
Surplus for the year	4,555,468	1,038,543
Adjustments to reconcile the results with the cash and cash equivalents generated from operational activities		
Depreciation and amortization	146	86
Variations in assets and liabilities		
(Increase) in contributions receivable	(26,227)	(15,902)
(Increase) in other notes and credits receivable	(3,361,014)	(777,690)
(Increase) in financial investments and securities	(9,500,655)	(88,956)
Decrease in notes and credits receivable - FCVS	18.955	485,534
Increase in accounts payable to suppliers	158	605
Increase in salaries and social charges	36	-
(Decrease)/Increase in other liabilities	(1,300,000)	1,264,179
(Decrease) in voluntary advances of contributions	(1,074,884)	(1,074,884)
Increase in due to third parties	8.090	4,862
(Decrease)/Increase in contractual liabilities and others	244,353	(391,934)
(Decrease)/Increase in provision for contingencies	(49,646)	1,603
Net cash generated from operational activities	(10,485,220)	446,046
Cash flows from investment activities		
Acquisition of fixed assets	(228)	(792)
Net cash applied in investment activities	(228)	(792)
(Decrease)/Increase in cash and cash equivalents	(10,485,448)	445,254
Changes in net cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	26,251,883	25,806,629
Cash and cash equivalents at the end of the year	15,766,435	26,251,883
(Decrease)/Increase in cash and cash equivalents	(10,485,448)	445,254

See the accompanying notes to the financial statements.

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 not-for-profit civil association in the legal form 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 (seventy thousand Reais) per individual or corporate entity, against an associated institution or against all of the institutions from the same financial conglomerate. Operations of demand deposits, deposits in investment accounts, savings deposits, time deposits and deposits in non-checking accounts used for registering and controlling the flow of funds from providing services related to the payment of wages, bills falling due, pensions and similar plans, bills of exchange, real estate notes, mortgage notes and real estate credit notes are all objects of guarantee provided by FGC.

The credits held by associations, condominiums, cooperatives, consortium groups or administrators, complementary pension plan entities, insurance companies, capitalization companies and other unincorporated entities are guaranteed up to a limit of R$ 70 (seventy thousand Reais) for their credits with the same associated institution.

CMN Resolution 3,692 of March 26, 2009, altered by CMN Resolutions 3,793 of September 28, 2009, and 3,931 of December 3, 2010, authorizes 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 (twenty million Reais) per deposit holder, for which a guarantee will only be demanded, based on the 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 (twenty million Reais) for the funding from DPGE, provided by Resolution 3,692/09, observing the criteria established.

Resolution 3,692 of March 26, 2009, altered by Resolutions 3,931 of December 3, 2010, establishes a schedule for the progressive reduction of allowable DPGE funding from January 1, 2012 to zero in 2016, allowing for any residual balances under ongoing contracts such that, from January 1, 2021, financial institutions will no longer be allowed to maintain DPGE balances.

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 subject to the guarantees given 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 - 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 justified, which is presented to the Central Bank of Brazil, for examination and subsequent submission for 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 FGC Board of Directors 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 obtain funding through DPGEs.

As allowed for by CMN Resolution 3,656 of December 17, 2008, FGC can invest funds with its associated institutions via: 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 collateralized by credit rights, and the realization of linked operations in the form of CMN Resolution 2,921 of January 17, 2002, with the total balance of these types of 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, including the pronouncements of the Accounting Pronouncement Committee (CPC) (in line with the convergence to International Financial Reporting Standards - IFRS). 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 credit risk on mortgage certificate receivables, credits with the Wages Variations Compensation Fund - FCVS, credits with the Transferor Real Estate Loan Societies and 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.

For the purpose of comparative presentation of the financial statements for the year ended December 31, 2011, some of the balance sheet accounts considered analytically in the previous year were combined in the current year under the headings Notes and credits receivable - FCVS and Other notes and credits receivable, as shown below:

Presentation as of December 31, 2010	R$	Presentation as of December 31, 2011	R$
Mortgage certificates	3,368	Notes and credits receivable - FCVS	853,668
Mortgage contracts	13,163		
Credits with FCVS	1,003,844		
Credits with FCVS – To be defined	72,293		
Credits with Real Estate Companies	189,972		
Other notes and credits receivable	34,895		
Provision for adjustment to fair value of notes and credits	(138,193)		
Allowance for doubtful receivables	(325,674)		
Total	**853,668**	**Total**	**853,668**

Presentation as of December 31, 2010	R$	Presentation as of December 31, 2011	R $
Legal deposits	37,287	Other notes and credits receivable	904,091
Notes and credits receivable	3,800,000		
Provision for adjustment to fair value of notes and credits	(3,350,000)		
Other notes and credits receivable	430,242		
Allowance for doubtful receivables	(13,438)		
Total	**904,091**	**Total**	**904,091**

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, on a monthly basis up to the 25th day of each month. When credits that have been written off as losses and registered as memorandum accounts are subsequently renegotiated, the balances are included in the net equity account and the respective provision is retained. The amounts are recognized in the statement of income and expenses only when effectively received and/or in the case of the credits received in lieu of payment from FCVS on validation by Caixa Econômica Federal.

b. *Cash and cash equivalents*

Include cash accounts and short term, highly liquid investments, with maturities not exceeding 90 days from the acquisition date, which are readily convertible to a known amount of cash and subject to an insignificant risk of a change in value.

c. *Financial instruments*

Classification and measurement

The accounting principles adopted by FGC allow financial instruments to be classified in one of 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 statement of 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. 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 financial assets are acquired 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 statement of surplus.

(iv) Available for sale

Financial assets that are not classified in 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 surplus as financial income. The amount that refers to the variation in the fair value is recorded in equity, as a valuation adjustment, and realized in results when the securities are liquidated or when a loss considered permanent 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) reference to other instruments that are substantially similar; and (c) analyze of discounted cash flows; these techniques use, to the fullest extent possible, information available from the market. If there is objective evidence that a financial asset or group of financial assets is impaired, a fair-value adjustment provision is established based on the difference between the interest rates of the relevant assets and the market rates for assets with similar risk characteristics. 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 contingences that can be measured and are classified as probable.

4 Financial Investments and Securities

a. Composition of financial investments and securities

The financial investments and securities held at December 31 are classified as available for sale consisted of the following:

	2011	2010
Repurchase operations (i)		
Banco do Brasil S.A.	8,599,198	15,276,846
Caixa Econômica Federal	3,879,783	5,783,520
Banco Bradesco S.A. (for third parties)	23,095	20,371
Banco Itaú S.A. (for third parties)	37,411	33,003
	12,539,487	21,113,740
Bank Deposit Certificate		
Bank Deposit Certificate - CDB	304,286	272,572
	304,286	272,572
Public Federal Bills		
CVS **(ii)**	101,780	28,834
	101,780	28,834
Shares to pay third parties		
Shares to pay third parties **(iii)**	9,566	12,916
	9,566	12,916
Subordinated Financial Bills		
Subordinated Financial Bills	3,484,298	-
	3,484,298	-
Investment fund quotas		
Investment fund (nota 4.c)	9,162,911	5,190,207
Total	25,602,328	26,618,269

(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)** Shares are valuated based on the Stock Exchange quote for the most recent trading day.

b. Segregation of current and noncurrent financial investments and securities

Financial investments and securities becoming available or maturing within 360 days are classified as current assets, while those with maturities exceeding 361 days are classified as noncurrent assets, as shown in aggregate below:

Description	2011	2010
Current Assets	15,733,977	26,250,573
Noncurrent Assets	9,868,351	367,696

The changes shown in current and noncurrent assets are the result of a reclassification of investment fund portfolios to noncurrent assets. Although these assets have immediate liquidity (CDBs secured by receivables), Executive Management elected to segregate them in order to establish a distinction between liquid and potentially liquid funds. A breakdown of cash and cash equivalents in terms of immediate availability is provided in the table below:

Description	2011	2010
Banks – Checking accounts	32,458	1,310
Financial investments - Repurchase agreements	12,478,981	21,060,366
Financial investments - Investment funds (i)	3,254,996	5,190,207
Total	15,766,435	26,251,883

(i) Financial investments consisting of the funds BB FGC Fundo de Investimento RF LP, Himalaia RF CP - Fundo de Investimento and Top 497 RF – Fundo de Investimento.

c. Composition of investment fund portfolios

These are exclusive investment funds investing in federal government bonds, funds of credit receivables, Bills of Exchange, Financial Bills (classified as held to maturity) and Bank Deposit Certificates (collateralized by credit rights). An analytical breakdown of these fund portfolios is provided below:

FI - Fundo de Investimento Multimercado Crédito Privado	**Assets/(Liabilities) 2011**
Cash and cash equivalents	1
Units of funds of credit receivables	1,221,144
Bank Deposit Certificate	5,838
National Treasury Notes	226,238
Other	474
(-) Provision for payables	(53)
(-) Amounts payable to fund managers	(43)
Total fund portfolio	1,453,599

Omega - Fundo de Investimento Multimercado Crédito Privado	Assets/(Liabilities) 2011
Cash and cash equivalents	1
Bank Deposit Certificate	2,086,076
National Treasury Notes	629,592
Bills of Exchange	60,510
(-) Provision for payables	(126)
(-) Amounts payable to fund managers	(121)
Total fund portfolio	2,775,932

Gama - Fundo de Investimento Multimercado Crédito Privado	Assets/(Liabilities) 2011
Cash and cash equivalents	1
National Treasury Notes	105,182
Bank Deposit Certificate	1,466,216
Bills of Exchange	2,136
(-) Provision for payables	(78)
(-) Amounts payable to fund managers	(68)
Total fund portfolio	1,573,389

BB FGC Fundo de Investimento em Renda Fixa L P	Assets/(Liabilities) 2011
Cash and cash equivalents	1
National Treasury Bill	70,468
Financial Treasury Bills	1,101,423
(-) Provision for payables	(6)
(-) Amounts payable to fund managers	(61)
Total fund portfolio	1,171,825

BBB (Himalaia) R F Crédito Privado - Fundo de Investimento	Assets/(Liabilities) 2011
Cash and cash equivalents	4
Financial Treasury Bills	1,216,081
National Treasury Bills	97,934
National Treasury Notes	457,407
Federal Government Bonds	45,054
(-) Provision for payables	(1)
(-) Amounts payable to fund managers	(126)
Total fund portfolio	1,816,353

Top 497 Renda Fixa - Fundo de Investimento	Assets/(Liabilities) 2011
Cash and cash equivalents	5
National Treasury Bills	14,372
Financial Treasury Bills	173,924
National Treasury Notes	69,298
Federal Government Bonds	9,243
(-) Provision for payables	(1)
(-) Amounts payable to fund managers	(23)
Total fund portfolio	266,818

d. Custody of securities, shares and investment fund quotas

The public securities are held by the custodian System for Settlement and Custody (Selic and the custodian CETIP S.A. - Mercados Organizados; private securities (CDBs) are held with CETIP; shares are held with Banco Bradesco S.A. and the investment fund units 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, 2011 was R$ 88.772 (2010 - R$ 62,545).

6 Notes and Credits Receivable - FCVS

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

	Value at 31.12.2011	Provision for Doubtful receivables	Provision for Market value adjustment	Net value at 31.12.2011	Net value at 31.12.2010
Mortgage certificates	3,570	(1,546)	-	2,024	2,025
Mortgaged contracts	15,710	(4,146)	-	11,564	10,742
Credits with FCVS					
Pre-novated **(i)**	205,478	-	-	205,478	218,744
Ratified **(i)**	369,530	-	-	369,530	380,243
Validated **(i)**	383,082	-	-	383,082	379,908
To be validated **(i)**	17,781	-	-	17,781	24,949
Provision for adjustment to fair value	-	-	(149,210)	(149,210)	(138,193)
Allowance for doubtful receivables	-	(149,767)	-	(149,767)	(151,368)
Credits with FCVS to be defined	24,664	(24,664)	-	-	-
Credits with real estate credit companies	191,846	(101,176)	-	90,670	91,723
Securities and receivables	5,228	-	-	5,228	34,895
Total in 2010					853,668
Total in 2011	1,216,889	(281,299)	(149,210)	786,380	-

(i) The variation in the account balances can be attributed to the effects of the adjustment in the valuation of the credit conversion processes with FCVS. Loan novations during the year and the interest on and amortization of the CVS securities portfolio resulted in the receipt of R$ 51,714 in cash during 2011 (2010 - R$ 3,576).

7 Other Notes and Credits Receivable

Refers to special financial aid transactions offered by FGC to member institutions, largely incurring interest at the TMS rate (average Selic rate), for company reorganizations, capital increases and liquidity assurance, providing protection to the financial system and small savings account holders. Investments of equity in member institutions are described below. Depending on their structure, they have been classified either in this line or as securities:

Description	R$
(A) – Net equity	28,253,126
(B) – 50 % of net equity	14,126,563
Amounts linked to special operation	
Financial investments and securities	9,835,893
Other notes and credits receivable	4,280,442
Operations with immediate liquidity	(4,823,431)
(C) – Total	**9,292,904**
(D) - Use of equity - (D = C/A)	33%

8 Voluntary Advances of Contributions

In accordance with Circular 3,416 of October 24, 2008, issued by the Central Bank of Brazil, associated institutions made an advance of 60 (sixty) times the value of the ordinary contribution to FGC, based on the amounts at August 2008. The advance will be deducted on a monthly basis, for the number of months equivalent to the number of monthly advances made. At December 31, 2011 the balance for voluntary advances of contributions amounted to R$ 1.970.620 (2010 - R$ 3,045,504).

9 Provision for Contingencies

The changes in the provision for contingencies are presented below:

Description	2011	2010
Contingencies	276,854	326,500
Total	276,854	326,500

FGC has a provision for contingencies established according to its best estimates. Contingencies are substantially related to adjustments of positions with Sociedade de Crédito Imobiliário and Associação de Poupança e Empréstimo (on-lending entities). The change was due to write-offs owing to payments under unappealable decisions and the full release of funds.

10 Operational Income (Expenses)

a. On guarantees for subrogated receivables

During 2011 FGC received from Banco Bamerindus S.A. - In Extrajudicial Liquidation as an apportionment to ordinary creditors, net of rights acquisitions, R$ 1,484,244 and from Banco Brasileiro Comercial S.A. - In Extrajudicial Liquidation as partial payment, R$ 13,504. Guarantees were provided to the creditors of Banco Morada S.A. - In Extra-judicial Liquidation, in the amount of R$ 149,740, to Oboé Crédito Financiamento e Investimento S.A. - In Extrajudicial Liquidation, in the amount of R$ 147,268, and to Rótula S.A. Crédito, Financiamento e Investimento - In Extrajudicial Liquidation, in the amount of R$ 7,797.

b. Provisions and equity adjustments

Description	2011	2010
Net effect of the movements from allowance for doubtful receivables	7,326	(142,392)
Effect from adjustment to present value of notes and credit receivables	(11,173)	(50,822)
Provision for civil contingencies	(1,633)	(1,347)
Recognition of a provision for special operation (note 12.d)	-	(3,350,000)
Provision for adjustment to fair value subordinated financial bills	(1,256,028)	-
Total	(1,261,508)	(3,544,561)

c. Financial expenses

Description	2011	2010
Interest and inflation restatement - Contractual liabilities	(19,441)	(12,581)
Others	(14,258)	(10,464)
Total	(33,699)	(23,045)

d. Financial income

Description	2011	2010
Income from financial investments	2,071,455	2,565,619
Inflaction restatement of credits with FCVS	83,095	88,678
Other	365,865	119,730
Total	2,520,415	2,774,027

11 Risk Management

Risk management is the responsibility of FGC's executive management and substantially involves credit risk, market risk and liquidity risk.

Credit risk

Credit risk refers to the possibility of losses being incurred as a result of borrowers or counterparties failing to honor their financial obligations as agreed and of a fall in the value of a contract as a result of the downgrading of borrowers' risk ratings. Our general policy and rules on extending credit are established in our Bylaws and Internal Regulations, and include standards, procedures and parameters intended to mitigate credit risk. At FGC, considering our particularities and especially our essential role in ensuring the liquidity of the financial system, credit formalization and monitoring is strictly managed in accordance with preestablished rules, especially as regards the provision and formalization of guarantees.

Market risk

Market risk is the possibility of financial losses being incurred due to fluctuation in the pricing and interest rates of financial instruments, since asset and liability portfolios can have mismatches in terms of maturities, currencies and indexes. Executive Management is responsible for assessing these risks, although the risk exposure inherent to our business is low considering that there are no currency and maturity mismatches or transactions made with floating rates.

Liquidity risk

Liquidity risk arises from mismatches between the maturities of assets and liabilities, which could render us incapable of meeting our obligations as they fall due. The measures available to mitigate and control these risks are as follows: Available funds are invested exclusively in federal government bonds. In the operations termed "Resource Application" which aim to provide liquidity, FGC purchases CDBs from borrowers and transfers small ticket receivables with previously selected ratings.

12 Other Information

a. FGC, acting as the commission agent, in an extra-judicial settlement, made a Public Offer for acquiring unsecured credits, offering 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, the opportunity to assign 100% of their credit rights in the respective assets, and, consequently, made a payment of R$ 173,075, and registered a balance outstanding of R$ 54.712, registered in the line Due to third parties, representing the creditors that opted to defer the receipt of the amount, with financial settlement on December 14, 2016. and for those that had not formalized their adhesion to the offer, by December 31, 2011.In addition to the amount above, for the third party payments, FGC received shares from BM&FBovespa 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 to the offer requesting immediate payment. At the end of the year of 2011, the value of these shares amounted to R$ 9.566.

b. FGC keeps a record in off-balance sheet accounts of payments for expenses with credit guarantees 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, 2011 being R$ 2,122,758 (2010 - R$ 3,561,307) for ordinary guarantees and R$ 245,605 for DPGE-related special guarantees (in 2010 no payments had been made in relation to this guarantee). 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$ 543,814 (2010 - R$ 554,289).

c. As of December 31, 2011 and 2010, FGC comprehensive income, as defined in CPC (Accounting Pronouncement Committee) Pronouncement 26, was equal to the surplus for the year**.**

d. The events relating to Banco PanAmericano S.A., considered as subsequent events in the previous year, were realized as projected.

BOARD OF DIRECTORS

Members	***Alternates***
President - Gabriel Jorge Ferreira	Carlos Alberto Vieira
Alexandre Corrêa Abreu	
José de Menezes Berenguer Neto	
Julio de Siqueira Carvalho de Araujo	Jorge Fontes Hereda
Marcos de Barros Lisboa	Paulo Guilherme Monteiro Lobato Ribeiro

FISCAL COUNCIL

Members	***Alternates***
Helio Ribeiro Duarte	Alberto Corsetti
Manoel Felix Cintra Neto	Tito Enrique da Silva Neto

EXECUTIVE DIRECTION

Antonio Carlos Bueno de Camargo Silva Executive Director	Celso Antunes da Costa Director	Fabio Mentone Director

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

Fiscal Council Report

At a meeting at 5 PM on March 06, 2012 at the head offices at the address Av. Brigadeiro Faria Lima, 201 – 12.º andar, São Paulo, Brazil, the undersigned members of the Audit Committee of Fundo Garantidor de Créditos – FGC, through the legal and statutory powers vested in them, examined the Management Report, Balance Sheets and respective Statements of Surpluses and Changes in Shareholders' Equity and Cash Flows for the 2011 financial year, in addition to the summary of the main accounting practices and other notes to the financial statements. In view of the unqualified opinion issued by KPMG Auditores Independentes, the members are of the opinion that the aforesaid documents fairly present, in all material respects, the financial position of Fundo Garantidor de Créditos - FGC in accordance with the accounting practices adopted in Brazil, therefore recommending they be approved by the Board of Directors of FGC.

São Paulo, March, 06 de 2012.

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 financial statements of Fundo Garantidor de Créditos - FGC, which include the balance sheet at December 31, 2011 and the related statement of income, surplus and changes in net 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, 2011, the results of its operations, and its cash flows for the year then ended, in conformity with accounting practices adopted in Brazil.

Other matters
We have audited the financial statements for the year ended December 31, 2010 and issued an audit report thereon with a paragraph on emphasis about the impacts of the participation of Fundo Garantidor de Créditos - FGC in the process of resolving the situation of Banco PanAmericano S.A. and reestablishing its equity in 2010. The events within this process that were regarded as being subsequent to that year were fully realized during the year ended December 31, 2011.

São Paulo, February 12, 2012.

KPMG

KPMG Auditores Independentes
CRC 2SP014428/O-6

Ricardo Anhesini Souza
Accountant CRC 1SP152233/O-6