

(A translation of the original report in Portuguese, containing financial statements and consolidated financial statements (economic-financial consolidation) prepared in accordance with accounting practices derived from the Brazilian Corporation Law and rules of the Central Bank of Brazil)

Financial Statements at December 31, 2001 and 2000 and Report of Independent Accounts

Financial Statements

Report of Independent Accountants

January 16, 2002

The Board of Directors and Shareholders Banco Modal S.A.
Rio de Janeiro - RJ

- 1** We have examined the balance sheet of Banco Modal S.A. and the consolidated balance sheet of Banco Modal S.A. (economic-financial consolidation) as of December 31, 2001 and the related statement of income, changes in shareholders' equity and changes in financial position for the year then ended, which were prepared under the responsibility of its management. The consolidated financial statements (economic-financial consolidation) were prepared to comply with the rules and procedures determined by the Central Bank of Brazil and are not required by the accounting practices derived from the Brazilian Corporation Law. Our responsibility is to express an opinion on these financial statements.
- 2** Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Bank; (b) verification, on the test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by the Bank's management, as well as the presentation of the financial statement taken as a whole.
- 3** In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Banco Modal S.A. and the consolidated financial position of Banco Modal S.A. (economic-financial consolidation) as of December 31, 2001 and the results of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices derived from the Brazilian Corporation Law and, for the consolidated financial statements, in accordance with rules of the Central Bank of Brazil, as disclosed in Note 3. The financial statements of Banco Modal S.A. and the combined financial statements of Banco Modal S.A. for the year ended in December 31, 2000 were examined by other independent auditors who issued an unqualified opinion dated January 12, 2001.

KPMG Auditores Independentes
CRC-SP-14.428-"S"-RJ

José M. Matos Nicolau
Accountant CRC-RJ-42.216/0-7

Financial Statements

Balance Sheets December 31, 2001 and 2000

In thousand of reais

	Banco Modal S.A.		Economic - financial consolidation	
	2001	2000	2001	2000
Assets				
Current assets	77,405	51,750	78,571	52,123
Cash and cash equivalents	141	48	141	56
Cash	48	26	48	26
Bank deposits	-	-	-	8
Banking reserves	93	22	93	22
Short-term interbank investments	19,324	14,693	19,324	14,693
Money market	19,324	14,693	19,324	14,693
Securities	11,251	19,050	11,251	19,050
Own portfolio	7,960	18,688	7,960	18,688
Subject to repurchase agreements	1,200	-	1,200	-
Pledged as collateral	2,075	448	2,075	448
Subject to forward commitments	19	-	19	-
(-) Valuation allowance	(3)	(86)	(3)	(86)
Interbank accounts	402	185	402	185
Blocked deposits: Deposits with the Central Bank	336	185	336	185
Correspondents	66	-	66	-
Credit operations	42,906	11,147	42,906	11,147
FINAME/BNDES repasses	8,328	7,716	8,329	7,716
Loans and discounted notes - private sector	31,984	3,220	31,983	3,220
Financing - private sector	2,594	212	2,594	212
(-) Allowance for doubtful debts	-	(1)	-	(1)
Other receivables	3,350	6,597	4,516	6,957
Income receivable	29	26	-	-
Securities clearing accounts	2,371	4,983	2,371	4,983
Miscellaneous	950	1,588	2,145	1,974
Other assets	31	30	31	35
Prepaid expenses	31	30	31	35
Long-term assets	9,756	14,911	9,756	14,911
Loan operations	9,744	14,899	9,744	14,899
FINAME/BNDES repasses	9,744	13,993	9,744	13,993
Loans and discounted notes - private sector	-	895	-	895
Financing - private sector	-	11	-	11
Other assets	12	12	12	12
Others	12	12	12	12
Permanent assets	2,724	2,480	1,396	1,415
Investments	1,596	1,219	268	134
Fixed assets for own use	887	1,053	887	1,073
Deferred charges	241	208	241	208
Total	89,885	69,141	89,723	68,449

See accompanying notes to financial statements.

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Balance Sheets December 31, 2001 and 2000

In thousand of reais

Liabilities	Banco Modal S.A.		Economic - financial consolidation	
	2001	2000	2001	2000
Current liabilities	34,979	24,140	34,817	19,932
Deposits	22,395	10,094	21,119	5,287
Demand deposits	240	483	60	475
Interbank deposits	-	3,670	-	-
Time deposits	22,155	5,941	21,059	4,812
Money market repurchase commitments	1,200	-	1,200	-
Own portfolio	1,200	-	1,200	-
Repasses	8,280	7,667	8,280	7,667
FINAME/BNDES	8,280	7,667	8,280	7,667
Other liabilities	3,104	6,379	4,218	6,978
Collection of taxes	7	-	7	-
Social and statutory	446	144	446	163
Taxes and social security contributions	1,204	300	1,278	852
Securities clearing accounts	959	5,559	959	5,559
Miscellaneous	488	376	1,528	404
Long-term liabilities	9,744	13,993	9,744	13,993
Repasses	9,744	13,993	9,744	13,993
FINAME/BNDES	9,744	13,993	9,744	13,993
Shareholders' equity	45,162	31,008	45,162	34,524
Capital stock:				
Domiciled in Brazil	41,726	30,000	41,726	31,048
Capital reserve	139	-	139	-
Revenue reserves	211	-	211	268
Retained earnings	3,086	1,008	3,086	3,208
Total	89,885	69,141	89,723	68,449

Financial Statements

Statements of income

In thousand of reais, except net income per share

	Banco Modal S.A.			Economic-financial Consolidation		
	Years ended december 31			Years ended december 31		
	Second semester of 2001	2001	2000	Second semester of 2001	2001	2000
Income from financial operations	11,394	18,098	30,874	11,394	18,098	30,874
Loans interest	6,869	10,730	3,896	6,869	10,730	3,896
Securities trading	4,525	7,368	26,978	4,525	7,368	26,978
Expenses on financial operations	(2,889)	(6,107)	(22,756)	(2,790)	(5,926)	(22,062)
Interest on deposits	(1,409)	(2,297)	(20,534)	(1,310)	(2,116)	(19,840)
Loan and repass operations	(1,480)	(3,811)	(2,221)	(1,480)	(3,811)	(2,221)
Reversal of (allowance for) doubtful debts	-	1	(1)	-	1	(1)
Gross income on financial operations	8,505	11,991	8,118	8,604	12,172	8,812
Other operating income (expenses)	(3,540)	(6,199)	(4,796)	(3,598)	(6,321)	(4,596)
Income from services rendered	687	1,488	2,498	1,373	1,488	3,308
Personnel expenses	(2,075)	(3,748)	(2,853)	(2,075)	(3,748)	(3,167)
Other administrative expenses	(1,870)	(3,459)	(3,655)	(1,899)	(3,491)	(3,766)
Tax expenses	(439)	(658)	(884)	(443)	(684)	(963)
Equity in income of subsidiaries	131	187	106	-	-	-
Other operating income	146	177	17	78	793	17
Other operating expenses	(120)	(186)	(25)	(632)	(679)	(25)
Operating income	4,965	5,792	3,322	5,006	5,851	4,216
Non-operating expenses	(2)	(1)	(16)	(2)	(1)	(14)
Income before income tax and participations	4,963	5,791	3,306	5,004	5,850	4,202
Income and social contribution taxes	(832)	(1,013)	(195)	(873)	(1,072)	(480)
Profit sharing	(446)	(558)	(1,359)	(446)	(558)	(1,416)
Net income	3,685	4,220	1,752	3,685	4,220	2,306
Net income per share	131,61	150,71	97,82			

See accompanying notes to financial statements.

Financial Statements

Statements of changes in shareholders' equity

In thousand of reais

	Capital	Capital increase	Capital reserves Revaluation of securities	Revenue reserves Legal	Retained earnings	Total
Year ended December 31, 2000						
Balance as of January 1	18,936	-	-	818	9,652	29,406
Increase of capital stock:						
In cash	850	-	-	-	-	850
From retained earnings and reserves	10,214	-	-	(919)	(9,295)	-
Net income for the year	-	-	-	-	1,752	1,752
Destinations:						
Legal reserve	-	-	-	101	(101)	-
Interest on shareholders' equity (R\$48,54 per share)	-	-	-	-	(1,000)	(1,000)
Balance as of December 31	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,008</u>	<u>31,008</u>
Changes during the year	<u>11,064</u>	<u>-</u>	<u>-</u>	<u>(818)</u>	<u>(8,644)</u>	<u>1,602</u>
Year ended December 31, 2001						
Revaluation of securities - BM&F and CETIP	-	-	139	-	-	139
Increase of capital stock: In cash	11,726	-	-	-	-	11,726
Net income for the year	-	-	-	-	4,220	4,220
Destinations:						
Legal reserve	-	-	-	211	(211)	-
Interest on shareholders' equity (R\$68,96 per share)	-	-	-	-	(1,931)	(1,931)
Balance as of December 31	<u>41,726</u>	<u>-</u>	<u>139</u>	<u>211</u>	<u>3,086</u>	<u>45,162</u>
Changes during the year	<u>11,726</u>	<u>-</u>	<u>139</u>	<u>211</u>	<u>2,078</u>	<u>14,154</u>
Semester ended December 31, 2001						
Balance as of July 1	30,000	2,503	114	27	1,516	34,160
Revaluation of securities - BM&F and CETIP	-	-	25	-	-	25
Increase of capital stock: In cash	11,726	(2,503)	-	-	-	9,223
Net income for the semester	-	-	-	-	3,685	3,685
Destinations:						
Legal reserve	-	-	-	184	(184)	-
Interest on shareholders' equity (R\$68,96 per share)	-	-	-	-	(1,931)	(1,931)
Balance as of December 31	<u>41,726</u>	<u>-</u>	<u>139</u>	<u>211</u>	<u>3,086</u>	<u>45,162</u>
Changes for the semester	<u>11,726</u>	<u>(2,503)</u>	<u>25</u>	<u>184</u>	<u>1,570</u>	<u>11,002</u>

See accompanying notes to financial statements.

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Statements of changes in financial position in thousand of reais

	Banco Modal S.A.			Economic-financial Consolidation		
	Years ended december 31			Years ended december 31		
	Second semester of 2001	2001	2000	Second semester of 2001	2001	2000
Source of funds	33,952	40,765	306,683	32,773	39,668	307,323
Adjusted net income	3,698	4,304	1,816	3,829	4,561	2,481
Net income	3,685	4,220	1,752	3,685	4,290	2,306
Adjustments to net income:						
Depreciation and amortization	144	271	170	144	271	175
Equity in income of subsidiaries	(131)	(187)	(106)	-	-	-
Funds from shareholders	9,223	11,726	850	9,223	11,726	850
Increase of capital	9,223	11,726	850	9,223	11,726	850
Funds from third parties arising from	21,031	24,735	304,017	19,721	23,381	303,992
Increase in current and long-term liabilities	11,375	13,501	5,013	11,229	13,362	5,013
Deposits	10,175	12,301	-	10,029	12,162	-
Money market repurchase commitments	1,200	1,200	-	1,200	1,200	-
Repasses	-	-	5,013	-	-	5,013
Decrease in current and long-term assets	9,625	11,046	298,482	8,490	9,860	298,482
Securities	6,327	7,799	298,482	6,327	7,799	298,482
Other receivables	3,298	3,247	-	2,163	2,061	-
Disposal of fixed assets and investments	2	159	497	2	159	497
Investments	-	-	497	-	-	497
Fixed assets for own use	2	159	-	2	159	-
Dividends received from subsidiaries	29	29	25	-	-	-
Application of funds	33,915	40,672	306,684	32,809	39,583	307,331
Acquisition of	258	258	975	248	248	63
Investments	80	80	909	70	70	-
Fixed assets for own use	178	178	66	178	178	63
Increase in deferred charges	76	119	5	76	119	5
Increase in current and long-term assets	20,407	31,453	19,446	20,407	31,453	19,101
Short-term interbank investments	4,501	4,631	13,103	4,501	4,631	13,103
Interbank accounts	338	217	175	338	217	175
Credit operations	15,556	26,604	4,668	15,556	26,604	4,668
Other receivables	-	-	1,470	-	-	1,120
Other assets	12	1	30	12	1	35
Decrease in current and long-term liabilities	11,243	6,911	285,258	10,147	5,832	287,162
Deposits	-	-	12,430	-	-	13,917
Money market repurchase commitments	-	-	269,491	-	-	269,491
Interbank accounts	293	-	-	293	-	-
Repasses	1,819	3,636	-	1,819	3,636	-
Other liabilities	9,131	3,275	3,337	8,035	2,196	3,754
Interest on shareholders' equity	1,931	1,931	1,000	1,931	1,931	1,000
Increase in cash and cash equivalents	37	93	(1)	(36)	85	(8)
Changes in financial position						
Cash and cash equivalents						
At the beginning of the year/semester	104	48	49	107	56	64
At the end of the year/semester	141	141	48	141	141	56
Increase in cash and cash equivalents	37	93	(1)	34	85	(8)

See accompanying notes to financial statements.

Financial Statements

Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

1 Operations

The main activity of Banco Modal S.A., a joint-stock company, is to perform banking operations and render such services as multiservice banks with commercial and investment portfolios are authorized to offer, and to hold share interests in other companies.

2 Significant accounting principles

The accounting principles adopted for the recording of operations and the preparation of the financial statements of Banco Modal S.A. and the Economic-Financial Consolidation are prescribed by Brazilian corporate law in conjunction with the rules and instructions of the Central Bank of Brazil - BACEN regulations.

(a) Income recognition

Revenues and expenses are recognized on an accrual basis.

(b) Interbank investments and securities

Fixed income securities were recorded at cost plus accrued interest and equity securities were recorded at cost, both being adjusted to market value as applicable.

(c) Loans, interbank and time deposits and other receivables and liabilities

Fixed interest transactions were recorded at redemption value, adjusted to present value in deferred income/expense. Transactions subject to contractual indexation were recorded at present value, adjusted pro-rata to the balance sheet date.

(d) Allowance for doubtful debts

The allowance for doubtful debts is estimated based on an analysis of outstanding loans carried out by management in order to determine their value and takes into consideration the economic scenario, past experience, and the specific and overall risks of the portfolio as well as the rules and instructions established by BACEN.

(e) Permanent assets

Stated at acquisition cost, together with the following aspects:

► Investments

Investments in subsidiaries are accounted for by the equity method, and other investments are valued at cost. The shares of the commodities on future exchange (BM&F) and the local clearance house (CETIP) were revalued based on equity value and the result of these revaluations was recorded in capital reserves - revaluation of securities.

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

► **Fixed assets**

Depreciation was calculated on the straight-line method based on the estimated useful lives of the corresponding assets, being installations, communication system, furniture and equipment for own use - 10%; and data processing system - 20%.

► **Deferred charges**

Amortization of deferred charges, basically improvements to leasehold properties, on a straight-line basis, in accordance with the term of the lease and software - 20%.

(f) Repasses

Stated at contractual values plus accrued charges and monetary variations on a pro rata basis.

(g) Income tax and social contribution

Provision for income tax was calculated at the rate of 15%, plus the additional rate of 10%, on the taxable income. Social contribution tax was calculated at a rate of 9% on the income before income tax, adjusted in accordance with current legislation.

(h) Derivatives

Transaction with derivatives are recorded as follows:

► **Options**

Call and put options contracts of stocks, financial assets and commodities, are recorded in memorandum accounts. Premiums received and/or paid are recorded in the balance sheet accounts and adjusted to market value, based on quoted market prices, whenever a potential loss is expected. Premiums are written off on contract maturity, reducing or increasing the cost of related assets or rights, in the case the option is exercised, or as income/expense with stocks, financial assets and commodities, reflected in securities trading income, in the case the option is not exercised.

► **Futures**

Contracts of transactions of financial assets and commodities in the futures market are registered in memorandum accounts. These contracts are adjusted daily according to the type of asset and its maturity, and appropriated monthly to income or expenses with financial assets and commodities, which is a component of securities trading income.

► **Swap**

Swap contracts are recorded in memorandum accounts at nominal amounts. The amounts payable or receivable are recorded in balance sheets accounts with corresponding entry as income/expenses from securities trading.

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

3 Consolidated financial statements (combined in 2000)

The consolidated financial statements (combined in 2000) were prepared in accordance with the consolidation principles determined by the Central Bank of Brazil - BACEN, which established the economic-financial consolidation through Resolutions nº 2723 and nº 2743 of May 31 and June 28, 2000, respectively, which require the consolidation of financial statements referring to financial institutions belonging to the same financial group, irrespective of intercompany stockholdings or interests in companies, whether financial institutions or not, established in the country and abroad. The consolidated financial statements (combined in 2000) comprise the following institutions:

Banco Modal S.A. (a);
Modal Distribuidora de Títulos e Valores Mobiliários Ltda. (a);
Modal Trading S.A. (b);
Modal Energy S.A. (c).

- (a) Banco Modal S.A. e Modal Distribuidora de Títulos e Valores Mobiliários Ltda. do not hold mutual interests. On December 26, 2001, Central Bank of Brazil - BACEN approved the management request to cancel the authorization of Modal Distribuidora de Títulos e Valores Mobiliários Ltda. to operate as a financial institution, due to change in its activities, and therefore was not included in the economic-financial consolidation as of December 31, 2001.
- (b) Banco Modal S.A. holds 100% share interests in Modal Trading S.A., which was formed on November 5, 1999. On December 31, 2001 its shareholders' equity was R\$1,207 (2000 - R\$1,082) and the annual income was R\$65 (2000 - R\$108).
- (c) Banco Modal S.A. holds 100% share interests in Modal Energy, which was formed on July 12, 2000. On December 31, 2001 its shareholders' equity was R\$121 (2000 - R\$8) and the annual income was R\$122 (2000 - Loss of R\$2).

The operational consolidation of the balance sheet and income statement account reflects the aggregate of the balances of the assets, liabilities, income and expense accounts, according to their nature, together with the elimination of the investment in capital, accumulated results and investments and (b) the balances of current accounts and other asset and/or liability accounts maintained by those institutions and companies whose balance sheets were consolidated.

The conciliation of the shareholders' equity and the net income of Banco Modal S.A. with those shown in the Economic-Financial Consolidation can be shown as follows:

	Shareholders' equity		Net income	
	2001	2000	2001	2000
Banco Modal S.A.	45,162	31,008	4,220	1,752
Modal Distribuidora de Títulos e Valores Mobiliários Ltda	-	3,516	-	554
Economic-Financial Consolidation	<u>45,162</u>	<u>34,524</u>	<u>4,220</u>	<u>2,306</u>

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

4 Securities (Bank and Economic-Financial Consolidation)

	<u>2001</u>	<u>2000</u>
Own portfolio:		
Financial Treasury Bills (LFT)	6,787	17,329
Debentures	582	-
Shares portfolio	262	1,359
(-) Valuation Allowance	-	(86)
Others	<u>329</u>	<u>-</u>
	<u>7,960</u>	<u>18,602</u>
Subject to repurchase commitments:		
Financial Treasury Bills (LFT)	<u>1,200</u>	<u>-</u>
Pledged as collateral:		
Financial Treasury Bills (LFT)	<u>2,075</u>	<u>448</u>
Subject to forward commitments:		
Premiums on unexpired options contracts	19	-
(-) Valuation Allowance	<u>(3)</u>	<u>-</u>
	<u>16</u>	<u>-</u>
	<u><u>11,251</u></u>	<u><u>19,050</u></u>

5 Credit Operations (Bank and Economic-Financial Consolidation)

Resolution nº 2.682, issued on December 21, 1999 by the National Monetary Council (Conselho Monetário Nacional - CMN) introduced the following main parameters for rating credit operations and constituting provisions for doubtful debts as from March 1, 2000:

- ▶ Credit operations are now rated according to nine risk levels.
- ▶ The provision for doubtful debts is now made based on the client's rating under the risk levels defined in the Resolution. This rating considers, among others, a cyclical analysis of the operation, overdue payments, the client's history and guarantees provided, when applicable.

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

The classification of credit operations is as follows:

a. By type of client, economic activity and risk level

Type of credit	Type of cliente	Economic activity	Risk level	2001		2000	
				Balance	Provision for losses	Balance	Provision for losses
Loans and discounted notes:							
With collateral	Corporate	Industry	AA	16,072	-	2,042	-
With collateral	Corporate	Commerce	AA	2,060	-	-	-
With collateral	Corporate	Service	AA	13,852	-	2,073	-
Financing:							
With collateral	Corporate	Service	AA	2,549	-	-	-
With collateral	Corporate	Industry	A	33	-	150	(1)
With collateral	Corporate	Service	A	12	-	73	-
FINAME/BNDES:							
With collateral	Corporate	Industry	AA	13,691	-	14,544	-
With collateral	Corporate	Commerce	AA	4,046	-	6,760	-
With collateral	Corporate	Service	AA	335	-	405	-
				52,650	-	26,047	(1)

b. By maturity

Type of credit	Due within 180 days	Due from 180 to 360 days	Due after 360 days	Total
Loans and discounted notes:				
With collateral	31,955	29	-	31,984
Financing:				
With collateral	2,588	6	-	2,594
FINAME/BNDES:				
With collateral	3,670	4,658	9,744	18,072
	38,213	4,693	9,744	52,650

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

c. Cession of credits

In June, 2001, Banco Modal S.A. carried out cession of credits in accordance with Resolution nº 2,836 of May 30, 2001 of Central Bank of Brazil - BACEN. The value of this negotiation is presented as follows:

Book value of cession of credits	7,000
Traded value of cession of credits	<u>7,018</u>
Gain on cession of credits	<u>18</u>

6 Repasses (Bank and Economic-Financial Consolidated)

	<u>2001</u>	<u>2000</u>
Represented by loans from the National Bank for Economic and Social Development - BNDES and the Government Agency for Machinery and Equipment Financing - FINAME, subject to:		
▶ Interest rates from 1,0% to 5,0% per year plus Long-term Interest Rate - TJLP variation, with maturities up to December 2010.	15,635	16,341
▶ Interest rate of 1,0% per year plus LIBOR plus variation of the commercial U.S. dollar exchange rate variation.	-	5,319
▶ Interest rate from 1,0% to 2,5% per year and updated with BNDES currency mix with maturities up to October 2009.	<u>2,389</u>	<u>-</u>
	<u>18,024</u>	<u>21,660</u>
Current	8,280	7,667
Long-term	<u>9,744</u>	<u>13,993</u>
Total	<u>18,024</u>	<u>21,660</u>

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

7 Other receivables and other liabilities

Represented, mainly, by balances arising from the Bank's operating activities

	2001		2000	
	Bank	Economic-Financial Consolidation	Bank	Economic-Financial Consolidation
Other receivables:				
Revenue receivable	29	-	26	-
Securities clearing accounts:				
Receivable differentials on swap transactions	2,361	2,361	4,389	4,389
Accounts receivable from own and clients' securities transactions	10	10	594	594
	<u>2,371</u>	<u>2,371</u>	<u>4,983</u>	<u>4,983</u>
Miscellaneous:				
Tax credits	623	673	410	417
Receivable from clients	302	1,430	1,146	1,146
Others	37	54	44	44
	<u>962</u>	<u>2,157</u>	<u>1,600</u>	<u>1,607</u>
	<u>3,362</u>	<u>4,528</u>	<u>6,609</u>	<u>6,969</u>
Other liabilities:				
Securities clearing accounts:				
Payable differentials on swap transactions	936	936	4,963	4,963
Accounts payable from own and clients' securities transactions	23	23	596	596
	<u>959</u>	<u>959</u>	<u>5,559</u>	<u>5,559</u>
Miscellaneous:				
Personnel expenses	274	274	-	-
Payments to suppliers/customers	127	1,164	-	-
Obligation for cession of credits	-	-	120	-
Others/payables	87	90	256	404
	<u>488</u>	<u>1,528</u>	<u>376</u>	<u>404</u>

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

8 Shareholders' equity

a. Capital stock

Capital stock comprises 14,000 ordinary shares (2000 - 10,300) and 14,000 nominative preferred shares (2000 - 10,300), with no par value.

- ▶ At the Extraordinary General Meeting held on June 27, 2001, the shareholders approved the increase of the capital stock of Banco Modal S.A. by R\$2,503, with the issuance of additional 825 ordinary shares and 825 preferred shares.
- ▶ At the Extraordinary General Meeting held on October 31, 2001, the shareholders approved the increase of the capital stock of Banco Modal S.A. by R\$7,582, with the issuance of additional 2,375 ordinary shares and 2,375 preferred shares.
- ▶ At the Extraordinary General Meeting held on December 21, 2001, the shareholders approved the increase of the capital stock of Banco Modal S.A. by R\$1,641, with the issuance of additional 500 ordinary shares and 500 preferred shares, with interest on shareholders' equity.
- ▶ In the year ended December 31, 2001, Banco Modal's capital stock was increased from R\$30,000 to R\$41,726.

b. Rights of shares

Shareholders of Banco Modal S.A. are assured a minimum dividend of 6% of capital, not less than 25% of net income adjusted in accordance with Law nº 6,404/76.

Preferred shares, with no voting rights, have priority to the return of capital, in the case of Bank liquidation without the payment of premium, and the receipt of minimum dividends in the amount of R\$0.01 per share.

c. Interest on shareholders' equity

In December 2001, as set forth by Law nº 9,249/95, the Bank paid interest on shareholders' equity in the amount of R\$1,931 (2000 - R\$1,000). The shareholders' deliberated an increase of capital with the net value of the distribution, amounting R\$1,641, after income tax payment, as disclosed in Note 8(a). For presentation purposes, in accordance with Circular BACEN nº 2,739/97, this interest is being present within the changes in retained earnings. Tax effect on net income for the year was R\$657 (2000 - R\$340).

d. Legal reserve

Constituted by 5% of net income, up to the limits established by Brazilian Corporation Law.

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

9 Financial instruments

Banco Modal S.A. engages in transactions with financial instruments, including derivatives, aimed to meeting their own and the clients' needs, as well as to reduce risk exposure to market, currency and interest rates. The management of such risks is made through determination of controls limits, establishment of strategies, determination of limits, and other monitoring techniques.

The commitments assumed from these transactions, recorded as off-balance sheet accounts, as of December 31, 2001 and 2000 are presented as follows:

a. By financial instruments

	<u>2001</u>	<u>2000</u>
Options contracts:		
Asset position	560	-
Futures contracts:		
Purchase contracts:		
Interest rates	55,414	-
Sale contracts:		
Foreign	94	-
Swap:		
Asset position:		
Interest rates	-	4,389
Foreign currency	2,361	-
Liability position:		
Interest rates	40	4,565
Foreign currency	896	398

b. By maturity

	<u>Due within 30 days</u>	<u>Due from 31 to 90 days</u>	<u>Due from 91 to 180 days</u>	<u>Due after 180 days</u>	<u>Total</u>
Options:					
Asset position	-	560	-	-	560
Futures contracts:					
Purchase contracts	4,993	44,195	6,226	-	55,414
Sale contracts	-	94	-	-	94
Swap:					
Asset position	-	161	-	2,200	2,361
Liability position	40	149	-	747	936

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Notes to the financial statements Years ended December 31, 2001 and 2000

(In thousand of reais)

Options premiums and swaps differentials are present as follows:

	<u>2001</u>	<u>2000</u>
Marketable securities:		
Premiums on stock options	16	-
Other receivables:		
Securities clearing accounts:		
Receivable differentials on swap transactions	2,361	4,389
Other liabilities:		
Securities clearing accounts:		
Payable differentials on swap transactions	936	4,963

10 Operational limits (Basle Committee)

Financial institutions have to maintain minimum shareholders' equity equivalent to 11% of their consolidated assets weighted by risk factors, increased by percentages of the credit risk on swap operations, the exposures in gold and an assets and liabilities linked to variations to foreign exchange and interest rates in accordance with rules and instructions from BACEN.

Banco Modal S.A. is in compliance with this operational limit, with a Basle Committee ratio of 27.03% as of December 31, 2001.

11 Other information (Economic-Financial Consolidation)

Income from services rendered refers basically to commissions received for performing specific operations to the clients as well as income arising from the management and performance of investment funds managed by Banco Modal S.A.