



Financial Statement at December 31, 2002 and 2001 and Report of Independent Accounts

(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

Independent Auditor's Report

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

We have examined the balance sheets of Banco Modal S.A. and the consolidated balance sheets of Banco Modal S.A. (economic-financial consolidation) as of December 31, 2002 and 2001 and the related statements of income, changes in shareholders' equity and changes in financial position for the years 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.

Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Bank; (b) verification, on a 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.

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, 2002 and 2001 and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices derived from the Brazilian Corporation Law and rules of the Central Bank of Brazil as described in the following paragraph and, for the consolidated financial statements, in accordance with rules of the Central Bank of Brazil, as disclosed in Note 5. As described in Note 3 to the financial statements this year, the Bank adopted the new criteria for registration and valuation of securities and derivative financial instruments, determined by the Central Bank of Brazil.

January 10, 2003

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

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

Financial Statements

Balance Sheets

Years ended December 31, 2002 and 2001

(In thousands of reais)

	Banco Modal S.A.		Economic-Financial Consolidation	
	2002	2001	2002	2001
Assets				
Current assets	<u>168,385</u>	<u>77,405</u>	<u>168,443</u>	<u>78,571</u>
Cash and cash equivalents	<u>389</u>	<u>141</u>	<u>395</u>	<u>141</u>
Cash	27	48	27	48
Bank deposits	-	-	6	-
Banking reserves	362	93	362	93
Short-term interbank investments	<u>50,540</u>	<u>19,324</u>	<u>50,540</u>	<u>19,324</u>
Money market	50,540	19,324	50,540	19,324
Securities	<u>19,967</u>	<u>13,612</u>	<u>19,967</u>	<u>13,612</u>
Own portfolio	6,019	7,960	6,019	7,960
Subject to repurchase agreements	-	1,200	-	1,200
Pledged as collateral	4,628	2,075	4,628	2,075
Deposited with the Central Bank of Brazil	2,562	-	2,562	-
Derivative financial instruments	6,758	2,377	6,758	2,377
Interbank accounts	<u>362</u>	<u>402</u>	<u>362</u>	<u>402</u>
Restricted credits - deposits with the Central Bank of Brazil	358	336	358	336
Correspondents	4	66	4	66
Credit operations	<u>94,775</u>	<u>42,906</u>	<u>94,775</u>	<u>42,906</u>
Loans and discounted notes - private sector	38,981	31,984	38,981	31,984
Financing - private sector	-	2,594	-	2,594
FINAME/BNDES repasses	55,795	8,328	55,795	8,328
(-) Allowance for doubtful debts	(1)	-	(1)	-
Other receivables	<u>2,313</u>	<u>989</u>	<u>2,365</u>	<u>2,155</u>
Income receivable	120	29	9	-
Securities clearing accounts	7	10	7	10
Miscellaneous	2,186	950	2,349	2,145
Other assets	<u>39</u>	<u>31</u>	<u>39</u>	<u>31</u>
Prepaid expenses	39	31	39	31
Long-term assets	<u>20,780</u>	<u>9,756</u>	<u>20,780</u>	<u>9,756</u>
Loan operations - private sector	<u>20,758</u>	<u>9,744</u>	<u>20,758</u>	<u>9,744</u>
FINAME/BNDES repasses	20,758	9,744	20,758	9,744
Other credits	<u>22</u>	<u>12</u>	<u>22</u>	<u>12</u>
Others	22	12	22	12
Permanent assets	<u>3,381</u>	<u>2,724</u>	<u>1,747</u>	<u>1,396</u>
Investments	2,174	1,596	540	268
Fixed assets for own use	1,012	887	1,012	887
Deferred charges	195	241	195	241
Total	<u>192,546</u>	<u>89,885</u>	<u>190,970</u>	<u>89,723</u>

See accompanying notes to financial statements.

Financial Statements

Balance Sheets

Years ended December 31, 2002 and 2001

(In thousands of reais)

	Banco Modal S.A.		Economic -Financial Consolidation	
	2002	2001	2002	2001
Liabilities				
Current liabilities	116,615	34,979	115,039	34,817
Deposits	50,823	22,395	49,108	21,119
Demand deposits	23	240	22	60
Time deposits	50,800	22,155	49,086	21,059
Money market repurchase commitments	-	1,200	-	1,200
Own portfolio	-	1,200	-	1,200
Repasses	55,717	8,280	55,717	8,280
FINAME/BNDES	55,717	8,280	55,717	8,280
Derivative financial instruments	3,198	936	3,198	936
Derivative financial instruments	3,198	936	3,198	936
Other liabilities	6,877	2,168	7,016	3,282
Collection of taxes	60	7	60	7
Social and statutory	546	446	546	446
Taxes and social security contributions	3,363	1,204	3,485	1,278
Securities clearing accounts	2,370	23	2,370	23
Miscellaneous	538	488	555	1,528
Long-term liabilities	21,984	9,744	21,984	9,744
Deposits	1,226	-	1,226	-
Time deposits	1,226	-	1,226	-
Repasses	20,758	9,744	20,758	9,744
FINAME/BNDES	20,758	9,744	20,758	9,744
Shareholders' equity	53,947	45,162	53,947	45,162
Capital stock:				
Domiciled in Brazil	46,226	41,726	46,226	41,726
Capital reserve	148	139	148	139
Revenue reserve	443	211	443	211
Fair value adjustment	6	-	6	-
Retained earnings	7,124	3,086	7,124	3,086
Total	192,546	89,885	190,970	89,723

Financial Statements

Statements of income

(In thousands of reais, except net income per share)

	Banco Modal S.A.			Economic-Financial Consolidation		
	Second semester of 2002	Years ended December 31		Second semester of 2002	Years ended December 31	
		2002	2001		2002	2001
Income from financial operations	18,528	28,492	18,098	18,576	28,502	18,098
Loans interest	16,008	26,694	10,730	16,008	26,694	10,730
Securities trading	2,838	5,890	4,026	2,886	5,900	4,026
Derivative financial instruments	(322)	(4,100)	3,342	(322)	(4,100)	3,342
Compulsory investment	4	8	-	4	8	-
Expenses on financial operations	(5,356)	(9,594)	(6,107)	(5,307)	(9,448)	(5,928)
Funding operations	(2,674)	(5,136)	(2,297)	(2,625)	(4,990)	(2,118)
Loan and repasses operations	(2,681)	(4,457)	(3,811)	(2,681)	(4,457)	(3,811)
Reversal of (allowance for) doubtful debts	(1)	(1)	1	(1)	(1)	1
Gross income on financial operations	13,172	18,898	11,991	13,269	19,054	12,170
Other operating income (expenses)	(4,661)	(8,427)	(6,200)	(4,690)	(8,462)	(6,320)
Income from services rendered	678	1,737	1,488	678	1,768	1,705
Personnel expenses	(2,450)	(4,848)	(3,748)	(2,450)	(4,848)	(3,748)
Other administrative expenses	(2,241)	(4,391)	(3,459)	(2,260)	(4,455)	(3,476)
Tax expenses	(940)	(1,523)	(657)	(968)	(1,567)	(711)
Equity in income of subsidiaries	167	307	187	-	-	-
Other operating income	135	310	176	320	659	97
Other operating expenses	(10)	(19)	(187)	(10)	(19)	(187)
Operating income	8,511	10,471	5,791	8,579	10,592	5,850
Non-operating expenses	(2)	(4)	-	(2)	(4)	-
Income before income tax and participations	8,509	10,467	5,791	8,577	10,588	5,850
Income and social contribution taxes	(1,996)	(2,438)	(1,013)	(2,064)	(2,559)	(1,072)
Profit sharing	(550)	(1,037)	(558)	(550)	(1,037)	(558)
Net income	5,963	6,992	4,220	5,963	6,992	4,220
Interest on shareholders' equity	(2,357)	(2,357)	(1,931)	(2,357)	(2,357)	(1,931)
Net income per share	194.23	227.75	150.71			

See accompanying notes to financial statements.

Financial Statements

Statements of changes in shareholders' equity Years ended December 31, 2002 and 2001

(In thousand of reais)

	<u>Capital</u>	<u>Capital reserve Revaluation of securities</u>	<u>Revenue reserve Legal</u>	<u>Adjustment to fair value- securities and derivatives</u>	<u>Retained earnings</u>	<u>Total</u>
Year ended December 31, 2001						
Balance as of January 1	30,000	-	-	-	1,008	31,008
Capital reserve constitution:						
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, 2001	<u>41,726</u>	<u>139</u>	<u>211</u>	<u>-</u>	<u>3,086</u>	<u>45,162</u>
Changes during the year	<u>11,726</u>	<u>139</u>	<u>211</u>	<u>-</u>	<u>2,078</u>	<u>14,154</u>
Year ended December 31, 2002						
Balance as of January 1	41,726	139	211	-	3,086	45,162
Capital reserve constitution:						
Revaluation of securities - BM&F and CETIP	-	9	-	-	-	9
Increase of capital stock:						
In cash	4,500	-	-	-	-	4,500
Prior years adjustment:						
Change in accounting practice - Note 3	-	-	-	-	(365)	(365)
Ajustment to fair value - TVM and derivatives	-	-	-	6	-	6
Net income for the year	-	-	-	-	6,992	6,992
Destinations:						
Legal reserve	-	-	232	-	(232)	-
Interest on shareholders' equity (R\$76.79 per share)	-	-	-	-	(2,357)	(2,357)
Balance as of December 31, 2002	<u>46,226</u>	<u>148</u>	<u>443</u>	<u>6</u>	<u>7,124</u>	<u>53,947</u>
Changes during the year	<u>4,500</u>	<u>9</u>	<u>232</u>	<u>6</u>	<u>4,038</u>	<u>8,785</u>
Semester ended December 31, 2002						
Balance as of July 1	45,226	148	262	(122)	3,699	49,213
Increase of capital stock:						
In cash	1,000	-	-	-	-	1,000
Ajustment to fair value - TVM and derivatives	-	-	-	128	-	128
Net income for the semester	-	-	-	-	5,963	5,963
Destinations:						
Legal reserve	-	-	181	-	(181)	-
Interest on shareholders' equity (R\$76.79 per share)	-	-	-	-	(2,357)	(2,357)
Balance as of December 31	<u>46,226</u>	<u>148</u>	<u>443</u>	<u>6</u>	<u>7,124</u>	<u>53,947</u>
Changes for the semester	<u>1,000</u>	<u>-</u>	<u>181</u>	<u>128</u>	<u>3,425</u>	<u>4,734</u>

See accompanying notes to financial statements.

Financial Statements

Statements of changes in financial position

(In thousand of reais)

	Banco Modal S.A.			Economic-Financial Consolidation		
	Second Semester of 2002	Years ended December 31		Second Semester of 2002	Years ended December 31	
		2002	2001		2002	2001
Source of funds	109,476	106,656	41,520	109,481	105,548	41,432
Adjusted net income	5,976	7,033	4,304	6,143	7,340	4,491
Net income	5,963	6,992	4,220	5,963	6,992	4,220
Adjustments to net income:						
Depreciation and amortization	180	348	271	180	348	271
Equity in income of subsidiaries	(167)	(307)	(187)	-	-	-
Adjustment to fair value - securities and derivatives	128	6	-	128	6	-
Funds from shareholders	1,000	4,500	11,726	1,000	4,500	11,726
Increase of capital	1,000	4,500	11,726	1,000	4,500	11,726
Funds from third parties arising from	102,372	95,117	25,490	102,210	93,702	25,215
Increase in current and long-term liabilities	94,991	95,076	14,256	93,430	93,662	15,196
Deposits	35,852	29,654	12,301	34,488	29,215	12,162
Money market repurchase commitments	-	-	1,200	-	-	1,200
Repasses	56,009	58,451	-	56,009	58,451	-
Derivative financial instruments	-	2,262	-	-	2,262	-
Other obligations	3,130	4,709	755	2,933	3,734	1,834
Decrease in current and long-term assets	7,380	40	11,046	8,780	40	9,860
Securities and derivative financial instruments	5,194	-	9,828	5,194	-	9,828
Interbank accounts	1,315	40	-	1,315	40	-
Other receivables	867	-	1,218	2,267	-	32
Other assets	4	-	-	4	-	-
Disposal of fixed assets and investments	-	-	159	-	-	159
Fixed assets for own use	-	-	159	-	-	159
Dividends received from subsidiaries	1	1	29	-	-	-
Application of funds	109,145	106,408	41,427	109,145	105,294	41,347
Prior years adjustment	-	365	-	-	365	-
Acquisition of	36	638	258	36	638	178
Investments	-	263	80	-	263	-
Fixed assets for own use	36	375	178	36	375	178
Increase in deferred charges	17	52	119	17	52	119
Increase in current and long-term assets	104,113	101,796	31,453	104,113	100,682	31,453
Short-term interbank investments	38,294	31,216	4,631	38,294	31,216	4,631
Marketable securities and derivative financial instruments	-	6,355	-	-	6,355	-
Interbank accounts	-	-	217	-	-	217
Credit operations	65,819	62,883	26,604	65,819	62,883	26,604
Other receivables	-	1,334	-	-	220	-
Other assets	-	8	1	-	8	1
Decrease in current and long-term liabilities	2,622	1,200	7,666	2,622	1,200	7,666
Money market repurchase commitments	-	1,200	-	-	1,200	-
Interbank accounts	1,688	-	-	1,688	-	-
Repasses	-	-	3,636	-	-	3,636
Derivative financial instruments	934	-	4,030	934	-	4,030
Interest on shareholders' equity	2,357	2,357	1,931	2,357	2,357	1,931
Increase in cash and cash equivalents	331	248	93	336	254	85
Changes in financial position						
Cash and cash equivalents						
At the beginning of the semester/year	58	141	48	59	141	56
At the end of the semester/year	389	389	141	395	395	141
Increase in cash and cash equivalents	331	248	93	336	254	85

See accompanying notes to financial statements.



Financial Statements

Notes to the financial statements **Years ended December 31, 2002 and 2001** (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 Presentation of the financial statements

The financial statements were prepared in accordance with the accounting principles derived from the Brazilian Corporation Law and the rules established by the Central Bank of Brazil (BACEN).

Taking into account Circular Letters nrs. 3,023 and 3,026, issued by the Central Bank of Brazil (BACEN) on June 11, 2002 and July 5, 2002, respectively, which modified the accounting classification of marketable securities and derivative financial instruments in the Accounting Chart for Institutions of the National Financial System - COSIF, and due to the changes in the valuation criteria disclosed in Note 3 below, reclassifications were made in the balances as of December 31, 2001 aiming at adjusting them to the accounting classification for the current year and making it possible to compare the financial statements presented herein.

3 Change in accounting practice

In the year ended on December 31, 2002, Banco Modal S.A. adopted the requirements of Central Bank Circular Letters nr. 3,068 of November 8, 2001 and 3,082 of January 30, 2002, which established new criteria for registration and valuation of bonds, securities and derivative financial instruments.

Circular Letter nr. 3,068 establishes that financial institutions should classify bonds and securities in three categories, observing the following accounting criteria:

- I - Securities for trading;
- II - Securities available for sale; and
- III - Securities held to maturity.

Securities classified in categories I and II should be adjusted to their market value, with the portfolio adjustments recorded as balancing items in income and in a specific shareholders' equity account, respectively, and those classified in category III should be adjusted according to their respective acquisition cost, with the accrued interest recorded in an income account.

In accordance with Circular nr. 3,082, financial institutions should value derivatives according to their market value and, if for hedge purposes, such instruments should be classified as market risk hedge or cash flow hedge, with the market risk hedge appreciation or devaluation recorded in an income or expense account, under income for the period, and the appreciation or the devaluation of the effective portion of the cash flow hedge should be recorded as a balancing item to a specific shareholders' equity account.

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Notes to the financial statements Years ended December 31, 2002 and 2001 (In thousand of reais)

Adoption of the market value valuation criteria took place on June 30, 2002 and their effects were calculated and recognized as follows:

- For the year ended December 31, 2001, with reference to operations commenced prior to January 1, 2001 and not settled by June 30, 2002, the adjustments were recorded in retained earnings as adjustments of prior years, net of taxes; and
- For operations commenced as of January 1, 2002, the adjustments were recorded in the income statement or in the shareholders' equity account in accordance with the classification of each security or derivative financial instrument.

At December 31, 2002, the effects from the market valuation were as follows:

In operations	Portfolio		
Securities			(49)
Derivative financial instruments			2,914
			<u>2,865</u>
	Effects		
	Gross	Tax	Net
In shareholders' equity			
Retained earnings	(553)	188	(365)
Valuation of securities available for sale	9	(3)	6
Income statement	3,409	(1,159)	2,250
	<u>2,865</u>	<u>(974)</u>	<u>1,891</u>

Tax credits and deferred tax liabilities arising from the adoption of these new criteria were calculated and recorded in accordance with to the Circular Letter nr. 3,171 of December 30, 2002, considering the prevailing corporate income tax and social contribution rates, as follows:

Other credits - Miscellaneous	
Deferred tax assets - short-term	<u>228</u>
Other liabilities - Taxes and social contributions	
Deferred tax liabilities - short-term	<u>1,202</u>

4 Significant accounting practices

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 (Note 5) are prescribed by Brazilian corporate law in conjunction with the rules and instructions of the Central Bank of Brazil - BACEN regulations.



Financial Statements

Notes to the financial statements

Years ended December 31, 2002 and 2001

(In thousand of reais)

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.

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.

› **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% on taxable profits and, when applicable, plus an additional rate of 10% on taxable profits in excess of R\$240. Provision for social contribution tax was calculated at the rate of 9% on profits before income tax, adjusted in accordance with current legislation.



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Notes to the financial statements

Years ended December 31, 2002 and 2001

(In thousand of reais)

h. Derivatives

Transactions with derivatives are recorded as follows:

Options: Call option contracts on stocks, financial assets and commodities, both issued and outstanding, are recorded in memorandum accounts. Premiums received and/or paid when the operations are realized are recorded in equity accounts and adjusted to market value. Premiums are written off on maturity of the contracts, reducing or increasing the cost of related assets or rights, if the option is exercised, or as income/expense for transactions with stocks, financial assets and commodities, reflected in income from derivatives if the option is not exercised.

Futures: Contracts for transactions of financial assets and commodities in the futures market are recorded in memorandum accounts. These contracts are adjusted daily according to the type of asset and its maturity, and appropriated monthly as gains or losses on financial assets and commodities, which is a component of derivative financial income.

Swap: Swap contracts are recorded in memorandum accounts at the nominal amounts. The differences payable or receivable are recorded in equity accounts with a balancing entry as income/expenses from derivatives, adjusted to fair value.

i. Adjustment to market value

Adjustments to market value of the bonds, securities and derivatives are based on quotations of prices and market agents and on pricing models usually adopted by the financial institutions and their representative associations.

5 Consolidated financial statements (Economic-Financial Consolidation - CONEF)

The consolidated financial statements were prepared in accordance with the consolidation principles determined by the Central Bank of Brazil - BACEN, which established the economic-financial consolidation - CONEF - through Resolutions nrs. 2,723 and 2,743 of May 31 and June 28, 2000, respectively, which require the consolidation of financial statements of 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 comprise the following institutions:

- › Banco Modal S.A.;
- › Modal Trading S.A. **(a)**; and
- › Modal Energy S.A. **(b)**.

(a) Banco Modal S.A. holds 100% share interests in Modal Trading S.A., which was formed on November 5, 1999. On December 31, 2002 its shareholders' equity was R\$1,510 (2001 - R\$1,207) and the annual income was R\$303 (2001 - R\$65).

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Notes to the financial statements

Years ended December 31, 2002 and 2001

(In thousand of reais)

(b) Banco Modal S.A. holds 100% share interests in Modal Energy, which was formed on July 12, 2000. On December 31, 2002 its shareholders' equity was R\$124 (2001 - R\$121) and the annual income was R\$4 (2001 - Loss of R\$122).

The Economic-Financial Consolidation of the equity accounts and income statement accounts corresponds to the aggregate of the balances of the assets, liabilities, income and expense accounts, according to their nature, together with the elimination of interests in capital, retained earnings and investments and the balances of current accounts and other asset and/or liability accounts maintained by the institutions and companies whose balance sheets were consolidated.

6 Securities and derivative financial instruments (Bank and Economic-Financial Consolidation)

a. Securities

	2002				2001 (*)
	Fair value		Total	Cost value	
	Securities for trading	Securities available for sale			
Own portfolio:					
National Treasury Bills	-	1,976	1,976	1,975	6,787
Debentures	-	1,774	1,774	1,775	582
Share portfolio	2,269	-	2,269	2,227	262
Others	-	-	-	-	329
	<u>2,269</u>	<u>3,750</u>	<u>6,019</u>	<u>5,977</u>	<u>7,960</u>
Subject to repurchase agreements:					
National Treasury Bills	-	-	-	-	1,200
Pledged as collateral:					
National Treasury Bills	-	3,806	3,806	3,797	2,075
Share portfolio	822	-	822	788	-
	<u>822</u>	<u>3,806</u>	<u>4,628</u>	<u>4,585</u>	<u>2,075</u>
Deposit with the Central Bank of Brazil:					
National Treasury Bills	-	2,562	2,562	2,561	-
	<u>3,091</u>	<u>10,118</u>	<u>13,209</u>	<u>13,123</u>	<u>11,235</u>

(*) The balances in 2001 represent the acquisition cost plus interest up to the balance sheet date less provision for devaluation or potential losses, when applicable.

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Notes to the financial statements Years ended December 31, 2002 and 2001 (In thousand of reais)

Except for shares, on December 31, 2002, the securities had the following maturities: R\$ 8,344 up to 360 days and R\$ 1,774 up to 720 days.

b. Derivative financial instruments

	2002				Cost value	2001 (*)
	Hedged item	Risk hedged	Negotiation	Total		
Asset position:						
Premiums on stock options	-	-	22	22	15	16
Receivable differentials on swap transactions	883	3,256	2,597	6,736	5,604	2,361
	<u>883</u>	<u>3,256</u>	<u>2,619</u>	<u>6,758</u>	<u>5,619</u>	<u>2,377</u>
Liability position:						
Forward contracts obligation	54	-	-	54	(130)	-
Payable differentials on swap transactions	2,832	219	93	3,144	5,104	936
	<u>2,886</u>	<u>219</u>	<u>93</u>	<u>3,198</u>	<u>4,974</u>	<u>936</u>

(*) The balances in 2001 represent the acquisition cost plus income up to the balance sheet date less provision for devaluation (asset position), or potential losses (liability position), when applicable.

Banco Modal S.A. engages in transactions with financial instruments aimed at meeting its own and clients' needs, to reduce exposure to market, currency and interest rate risks. These risks are managed using policies that define the strategy of the operation, monitoring controls and position limits.

Commitments derived from operations with derivatives recorded in memorandum accounts on December 31, 2002 and 2001 may be presented as follows:

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Years ended December 31, 2002 and 2001

(In thousand of reais)

b.1 By financial instrument

		<u>2002</u>	<u>2001</u>
BOVESPA options:	Asset position	392	560
Forward market:	Liability position: Currency	54	-
Future markets:	Purchase contracts:		
	Interest rates	15,673	55,414
	Price index	2,407	-
	Sale contracts:		
	Currency	-	94
	Interest rates	6,488	-
Swap:	Asset position:		
	Interest rates	577	-
	Currency	4,671	2,361
	Price index	1,488	-
	Liability position:		
	Interest rates	95	40
	Currency	2,967	896
	Price index	82	-

b.2 By maturity date

		<u>Up to 30 days</u>	<u>From 31 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>Total</u>	
						<u>2002</u>	<u>2001</u>
Options:							
	Asset position	392	-	-	-	392	560
Forward market:							
	Liability position	-	-	54	-	54	-
Futures contracts:							
	Purchase contracts	-	2,407	14,608	1,065	18,080	55,414
	Sale contracts	6,499	-	-	-	6,499	94
Swap:							
	Asset position	827	3,047	1,138	1,724	6,736	2,361
	Liability position	83	2,886	94	81	3,144	936



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Years ended December 31, 2002 and 2001

(In thousand of reais)

7 Risk management

a. Market risk

Market stress testing and historical crisis simulations are used on a routine basis for decision-making. Before the market opens, reports are released which include a value-at-risk analysis, Monte Carlo simulation and tests to validate the calculation methodology (back testing), detailing all asset and liability positions, valued according to the regulations established by BACEN.

b. Liquidity risks

Liquidity risk is managed by adopting controls that assure the allocation of funds to assets of high quality and liquidity, based on equity and/or capital obtained from counterparties of good reputation at rates in line with the market. This control also includes the analysis of possible mismatches in time between assets and liabilities and the resulting adjustments needed.

c. Credit risk

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

8 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 allowance for doubtful debts as from March 1, 2000:

- › Credit operations are now rated according to nine risk levels; and
- › 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, 2002 and 2001 (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 client	Economic activity	Risk level	2002		2001	
				Balance	Provision for losses	Balance	Provision for losses
Loans and discounted notes:							
With collateral	Corporate	Industry	AA	23,932	-	16,072	-
With collateral	Corporate	Commerce	AA	1,510	-	2,060	-
With collateral	Corporate	Service	AA	13,526	-	13,852	-
With collateral	Corporate	Industry	D	13	1	-	-
Financing:							
With collateral	Corporate	Service	AA	-	-	2,549	-
With collateral	Corporate	Industry	A	-	-	33	-
With collateral	Corporate	Service	A	-	-	12	-
FINAME/BNDES:							
With collateral	Corporate	Industry	AA	35,221	-	13,691	-
With collateral	Corporate	Commerce	AA	18,671	-	4,046	-
With collateral	Corporate	Service	AA	22,661	-	335	-
				<u>115,534</u>	<u>1</u>	<u>52,650</u>	<u>-</u>

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	38,981	-	-	38,981
FINAME/BNDES:				
With collateral	<u>50,596</u>	<u>5,199</u>	<u>20,758</u>	<u>76,553</u>
	<u>89,577</u>	<u>5,199</u>	<u>20,758</u>	<u>115,534</u>

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Years ended December 31, 2002 and 2001

(In thousand of reais)

c. Cession of credits

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 values of these negotiations are presented as follows:

	<u>2002</u>	<u>2001</u>
Book value of cession of credits	10,022	7,000
Traded value of cession of credits	<u>10,812</u>	<u>7,018</u>
Gain on cession of credits	<u>790</u>	<u>18</u>

9 Repasses (Bank and Economic-Financial Consolidated)

	<u>2002</u>	<u>2001</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:		
<ul style="list-style-type: none"> > Interest rates up to 3.0% per annum plus Long-term Interest Rate - TJLP, with maturities up to December 2010. 	32,524	15,635
<ul style="list-style-type: none"> > Interest rate up to 2.5% per annum plus LIBOR plus variation of the U.S. dollar commercial exchange rate, with maturities up to March 2003. 	39,585	-
<ul style="list-style-type: none"> > Interest up to 2.8% per annum and updated with BNDES currency mix with maturities up to April 2009. 	<u>4,366</u>	<u>2,389</u>
	<u>76,475</u>	<u>18,024</u>
Current	<u>(55,717)</u>	<u>(8,280)</u>
Long-term	<u>20,758</u>	<u>9,744</u>

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Notes to the financial statements Years ended December 31, 2002 and 2001 (In thousand of reais)

10 Income tax and social contribution

The reconciliation between the amounts calculated according to the nominal rates and the amount recorded in the income statement can be summarized as follows:

	<u>2002</u>	
	Income tax	Social contribution
Income before taxes on income and profit sharing	10,467	10,467
Profit sharing	(1,037)	(1,037)
Interest on shareholders' equity	(2,357)	(2,357)
	<u>7,073</u>	<u>7,073</u>
Income before taxes	<u>7,073</u>	<u>7,073</u>
Income tax and social contribution at nominal rates	1,744	636
Addition of adjustment to fair value of securities and derivatives	852	307
Reversal (constitution) of tax credits on temporary differences	(737)	(265)
Other permanent additions (exclusions)	(58)	(21)
Fiscal incentives	(20)	-
	<u>1,781</u>	<u>657</u>

11 Shareholders' equity

a. Capital

Capital stock comprises 15,350 common shares (2001 - 14,000) and 15,350 nominative preferred shares (2001 - 14,000), with no par value.

In the Extraordinary Shareholders' Meeting held on February 27, 2002, the shareholders approved a capital increase of Banco Modal S.A. by R\$3,500 thousand, with the issue of an additional 1,050 common shares and 1,050 preferred shares, increasing the capital from R\$41,726 thousand to R\$45,226 thousand.

In the Extraordinary Shareholders' Meeting held on December 23, 2002, the shareholders approved the increase in the capital of Banco Modal S.A. by R\$1,000 thousand, with the issue of an additional 300 common shares and 300 preferred shares, increasing the capital from R\$45,226 thousand to R\$46,226 thousand.



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Years ended December 31, 2002 and 2001

(In thousand of reais)

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 nr. 6,404/76.

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

c. Interest on shareholders' equity

In December 2002, using the right established in Law nr. 9,249/95, the Bank allocated to shareholders interest on equity in the amount of R\$2,357 thousand. After the payment, the shareholders resolved to increase capital by R\$1,000 thousand, as disclosed in Note 11.a. For financial statement presentation purposes, in accordance with BACEN Circular nr. 2,739/97, this interest is presented in the changes in retained earnings. Tax effect on net income for the year ended December 31, 2002 was R\$802 thousand (2001 - R\$657 thousand).

d. Statutory reserve

This reserve is composed of the equivalent of 5% of net income in each financial year, up to the limits established by Brazilian Corporation Law.

12 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 32.87% (2001 - 27.03%) as of December 31, 2002.

13 Other information (Economic-Financial Consolidation)

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

b. On December 31, 2002 the Bank had co-obligations from guarantees rendered in the amount of R\$28,826 (2001 - R\$39,545).