

Report of Independent Auditors

To the Board of Directors and Stockholders
Banco Modal S.A.

1 We have audited the accompanying balance sheet of Banco Modal S.A. and the consolidated balance sheet of Banco Modal S.A. and its subsidiaries as of December 31, 2004, and the related statements of income, of changes in stockholders' equity and of changes in financial position of Banco Modal S.A., as well as the related consolidated statements of income and of changes in financial position, for the year then ended and for the second six-month period of 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Bank and its subsidiaries, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Banco Modal S.A. and Banco Modal S.A. and its subsidiaries at December 31, 2004 and the result of operations, the changes in stockholders' equity and the changes in the financial position of Banco Modal S.A., as well as the consolidated results of operations and of changes in financial position, for the year then ended and the second six-month period of 2004, in accordance with accounting practices adopted in Brazil.

4 The audit of the financial statements of Banco Modal S.A. and its subsidiaries for the year ended December 31, 2003, presented for comparison purposes, was conducted by other independent auditors who issued an unqualified opinion thereon dated January 16, 2004.

Rio de Janeiro, February 25, 2005

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" RJ

João César de O. Lima Jr.
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Balance Sheets

at December 31 (In thousands of reais)

	Banco Modal S.A.		Consolidated	
	2004	2003	2004	2003
Assets				
Current assets				
Cash and cash equivalents				
Cash	25	48	25	48
Free reserves	278	390	278	390
	303	438	303	438
Interbank investments				
Open market investments	-	11,008	-	11,008
Marketable securities and derivative financial instruments				
Own portfolio	40,795	59,404	40,795	59,404
Subject to repurchase agreements	121,318	241,389	121,318	241,389
Subject to guarantees	44,186	82,774	44,186	82,774
Restricted deposits - Brazilian Central Bank	4,315	9,198	4,315	9,198
Derivative financial instruments	5,532	8,935	5,532	8,935
	216,146	401,700	216,146	401,700
Interbank accounts				
Restricted receivables - deposits with the Brazilian Central Bank	131	334	131	334
Correspondent banks in Brazil	1,436	200	1,436	200
	1,567	534	1,567	534
Credit operations - private sector				
Loans and discounted securities	168,570	72,859	168,570	72,859
Financing	6,390	-	6,390	-
FINAME/BNDES onlendings	58,089	24,448	58,089	24,448
(-) Allowance for possible loan losses	(662)	(140)	(662)	(140)
	232,387	97,167	232,387	97,167
Other receivables				
Income receivable	45	61	-	61
Negotiation and intermediation of securities	678	3,108	678	3,108
Other	5,539	5,291	5,588	5,343
	6,262	8,460	6,266	8,512
Other receivables and assets				
Prepaid expenses	139	103	139	103
	456,804	519,410	456,808	519,462
Long-term receivables				
Marketable securities and derivative financial instruments	4,557	1,226	4,557	1,226
Credit operations - private sector				
Loans and discounted securities	1,317	-	1,317	-
FINAME/BNDES onlendings	27,934	75,767	27,934	75,767
	29,251	75,767	29,251	75,767
Other receivables	75	1,062	75	1,062
	33,883	78,055	33,883	78,055
Permanent assets				
Investments				
In subsidiaries	2,053	1,821	-	-
Other investments	572	550	572	550
Property and equipment	2,879	1,152	2,879	1,152
Deferred charges	2,235	220	2,235	220
	7,739	3,743	5,686	1,922
Total assets	498,426	601,208	496,377	599,439

The accompanying notes are an integral part of these financial statements.

	Banco Modal S.A.		Consolidated	
	2004	2003	2004	2003
Liabilities and stockholders' equity				
Current liabilities				
Deposits				
Demand deposits	152	288	148	287
Interbank deposits	16,446	28,555	16,446	28,555
Time deposits	74,955	83,420	72,888	81,564
	91,553	112,263	89,482	110,406
Deposits received under security repurchase agreements				
Own portfolio	122,330	233,213	122,330	233,213
Funds from acceptances and issuance of securities				
Liabilities for securities issued overseas	1,229	50,481	1,229	50,481
Interbank accounts				
Interbank onlendings	5,317	-	5,317	-
Onlendings				
FINAME/BNDES	58,009	24,308	58,009	24,308
Derivative financial instruments	5,135	2,991	5,135	2,991
Other liabilities				
Tax payment and collection	45	26	45	26
Social and statutory	642	4,762	642	4,762
Taxes and social security contributions	8,148	14,583	8,169	14,671
Negotiation and intermediation of securities	7,006	9,722	7,006	9,722
Other	2,471	940	2,472	940
	18,312	30,033	18,334	30,121
	301,885	453,289	299,836	451,520
Long-term liabilities				
Deposits				
Time deposits	16,112	86	16,112	86
Funds from acceptance and issue of securities				
Liabilities for securities issued overseas	71,669	-	71,669	-
Onlendings				
FINAME/BNDES	27,934	75,767	27,934	75,767
Derivative financial instruments	337	684	337	684
Other liabilities - tax and social security contributions	107	133	107	133
	116,159	76,670	116,159	76,670
Stockholders' equity				
Capital				
In Brazil	53,793	53,793	53,793	53,793
Capital increase	19,689	-	19,689	-
Capital reserve	182	158	182	158
Revenue reserve	1,669	1,015	1,669	1,015
Adjustment to market value - securities and derivatives	158	844	158	844
Retained earnings	4,891	15,439	4,891	15,439
	80,382	71,249	80,382	71,249
Total liabilities and stockholders' equity	498,426	601,208	496,377	599,439

Statements of Income

(In thousands of reais)

	Banco Modal S.A.			Consolidated		
	2nd six- month period of 2004	Years ended December 31		2nd six- month period of 2004	Years ended December 31	
		2004	2003		2004	2003
Income from gains on financial intermediation						
Credit operations	28,755	51,134	35,754	28,755	51,134	35,754
Marketable securities	18,402	33,556	47,294	18,402	33,556	47,294
Income from derivative financial instruments	(18,164)	(13,405)	2,297	(18,164)	(13,405)	2,297
Income from compulsory investments	-	1	12	-	1	12
	28,993	71,286	85,357	28,993	71,286	85,357
Expenses from financial intermediation						
Funds obtained in the market	(17,635)	(42,311)	(44,168)	(17,480)	(42,018)	(43,803)
Borrowings and onlendings	(5,136)	(12,663)	(6,255)	(5,136)	(12,663)	(6,255)
Allowance for possible loan losses	(431)	(834)	(139)	(431)	(834)	(139)
	(23,202)	(55,808)	(50,562)	(23,047)	(55,515)	(50,197)
Gross operating income	5,791	15,478	34,795	5,946	15,771	35,160
Other operating income (expenses)						
Income from services rendered	2,461	15,709	9,272	2,461	15,709	9,272
Personnel expenses	(4,898)	(8,578)	(5,554)	(4,898)	(8,578)	(5,554)
Other administrative expenses	(5,047)	(9,752)	(6,998)	(5,071)	(9,784)	(7,010)
Tax expenses	(1,382)	(3,459)	(3,414)	(1,395)	(3,477)	(3,439)
Equity in the earnings of subsidiaries	81	172	246	-	-	-
Other operating income	9,828	9,861	12,058	9,828	9,863	12,063
Other operating expenses	(85)	(101)	(53)	(85)	(101)	(53)
	958	3,852	5,557	840	3,632	5,279
Operating profit	6,749	19,330	40,352	6,786	19,403	40,439
Non-operating income	(144)	(211)	71	(144)	(211)	71
Income before taxation and profit sharing	6,605	19,119	40,423	6,642	19,192	40,510
Income tax and social contribution						
Provision for income tax	719	(2,362)	(8,753)	695	(2,409)	(8,810)
Provision for social contribution	229	(884)	(3,552)	216	(910)	(3,582)
Deferred tax asset	(1,399)	(490)	2,212	(1,399)	(490)	2,212
	(451)	(3,736)	(10,093)	(488)	(3,809)	(10,180)
Profit sharing	(642)	(2,288)	(3,836)	(642)	(2,288)	(3,836)
Net income for the period/year	5,512	13,095	26,494	5,512	13,095	26,494
Interest on capital	5,000	6,500	6,200	5,000	6,500	6,200
Net income per share - R\$	170.12	404.17	863.00			

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Financial Position

(In thousands of reais)

	Banco Modal S.A.			Consolidated		
	2nd six- month period of 2004	Years ended December 31		2nd six- month period of 2004	Years ended December 31	
		2004	2003		2004	2003
Financial resources were provided by						
Adjusted net income						
Net income for the six-month period	5,512	13,095	26,494	5,512	13,095	26,494
Adjustments to net income:						
Depreciation and amortization	428	657	369	428	657	369
Equity in income of subsidiaries	(81)	(172)	(246)	-	-	-
	5,859	13,580	26,617	5,940	13,752	26,863
Adjustment to market value – securities and derivative financial instruments	491	(686)	838	491	(686)	838
Funds from stockholders						
Increase in capital	4,250	4,250	-	4,250	4,250	-
Third-party resources						
Increase in liabilities						
Deposits	-	-	60,300	-	-	60,157
Deposits received and securities repurchase agreements	-	-	233,213	-	-	233,213
Funds from acceptances and issue of securities abroad	-	22,417	50,481	-	22,417	50,481
Interbank accounts	5,268	5,317	-	5,268	5,317	-
Onlendings	-	-	23,600	-	-	23,600
Derivative financial instruments	-	1,797	477	-	1,797	477
Other liabilities	1,259	-	23,289	1,264	-	23,238
Decrease in assets						
Interbank investments	171,497	11,008	39,532	171,497	11,008	39,532
Securities and derivative financial instruments	451,060	182,223	-	451,060	182,223	-
Other receivables	27	3,185	-	34	3,233	-
Dividends received from associated and subsidiary companies	45	45	58	-	-	-
Total funds provided	639,756	243,136	458,405	639,804	243,311	458,399
Financial resources were used for						
Dividends proposed	-	1,050	3,840	-	1,050	3,840
Interest on capital	5,000	6,500	6,200	5,000	6,500	6,200
Investments:						
Investments	98	106	-	-	-	-
Property and equipment	717	2,149	413	717	2,149	413
Deferred charges	2,119	2,247	120	2,119	2,247	120
Increase in assets						
Securities and derivative financial instruments	-	-	382,959	-	-	382,959
Interbank accounts	1,385	1,033	172	1,385	1,033	172
Credit operations	33,936	88,704	57,401	33,936	88,704	57,401
Other receivables	-	-	7,187	-	-	7,187
Other receivables and assets	95	36	64	95	36	64
Decrease in liabilities						
Deposits	24,234	4,684	-	24,380	4,898	-
Deposits received under securities repurchase agreements	534,503	110,883	-	534,503	110,883	-
Funds from acceptances and issuance of securities abroad	12,399	-	-	12,399	-	-
Onlendings	23,166	14,132	-	23,166	14,132	-
Derivative financial instruments	2,119	-	-	2,119	-	-
Other liabilities	-	11,747	-	-	11,814	-
Total resources used	639,771	243,271	458,356	639,819	243,446	458,356
Increase (decrease) in cash and cash equivalents	(15)	(135)	49	(15)	(135)	43
Changes in financial position						
Cash and cash equivalents						
At the beginning of the period/year	318	438	389	318	438	395
At the end of the period/year	303	303	438	303	303	438
Increase (decrease) in cash and cash equivalents	(15)	(135)	49	(15)	(135)	43

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Stockholders' Equity

(In thousands of reais)

	Capital	Capital increase	Capital reserve Restatement of equity securities	Revenue reserve - legal	Adjustment to market value - Securities and derivatives	Retained earnings	Total
Year ended December 31, 2003							
At January 1, 2003	46,226	-	148	443	6	7,124	53,947
Restatement of equity securities - BM&F and CETIP	-	-	10	-	-	-	10
Capital increase	7,567	-	-	(443)	-	(7,124)	-
Adjustment to market value – securities and derivatives	-	-	-	-	838	-	838
Net income for the year	-	-	-	-	-	26,494	26,494
Appropriations:							
Constitution of legal reserve	-	-	-	1,015	-	(1,015)	-
Interest on capital (R\$ 201.95 per share)	-	-	-	-	-	(6,200)	(6,200)
Dividends proposed (R\$ 125.08 per share)	-	-	-	-	-	(3,840)	(3,840)
At December 31, 2003	53,793	-	158	1,015	844	15,439	71,249
Changes in the year	7,567	-	10	572	838	8,315	17,302
Year ended December 31, 2004							
At January 1, 2004	53,793	-	158	1,015	844	15,439	71,249
Restatement of equity securities - BM&F and CETIP	-	-	24	-	-	-	24
Capital increase, being homologated by BACEN	-	19,689	-	-	-	(15,439)	4,250
Adjustment to market value – securities and derivatives	-	-	-	-	(686)	-	(686)
Net income for the year	-	-	-	-	-	13,095	13,095
Appropriations:							
Constitution of legal reserve	-	-	-	654	-	(654)	-
Interest on capital (R\$ 200.62 per share)	-	-	-	-	-	(6,500)	(6,500)
Dividends proposed (R\$ 34.20 per share)	-	-	-	-	-	(1,050)	(1,050)
At December 31, 2004	53,793	19,689	182	1,669	158	4,891	80,382
Changes in the year	-	19,689	24	654	(686)	(10,548)	9,133
Six-month period ended December 31, 2004							
At July 1, 2004	53,793	15,439	182	1,394	(333)	4,654	75,129
Capital increase, being homologated by BACEN	-	4,250	-	-	-	-	4,250
Adjustment to market value – securities and derivatives	-	-	-	-	491	-	491
Net income for the six-month period	-	-	-	-	-	5,512	5,512
Appropriations:							
Constitution of legal reserve	-	-	-	275	-	(275)	-
Interest on capital (R\$ 154.32 per share)	-	-	-	-	-	(5,000)	(5,000)
At December 31, 2004	53,793	19,689	182	1,669	158	4,891	80,382
Changes in the six-month period	-	4,250	-	275	491	237	5,253

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

at December 31, 2004 and 2003 (All amounts in thousands of reais unless otherwise indicated)

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, and to hold share interests in other companies.

2 Significant Accounting Practices

The financial statements were prepared in accordance with the accounting practices adopted in Brazil, and the rules and regulations established by the Brazilian Central Bank (BACEN).

(a) Determination of net income

Net income is determined on the accrual basis.

(b) Marketable securities

Marketable securities are classified under the terms of BACEN Circular N° 3068/01, into the following three categories:

- (i) Trading securities - securities to be traded on a frequent and active basis, recorded at market value, in contra-entry to income for the year.
- (ii) Securities held to maturity - securities for which management has the intention and financial capacity to hold them up to maturity, recorded at acquisition cost plus accrued income, in contra-entry to income for the year.
- (iii) Securities available for sale - securities not classified in categories (i) and (ii), which are evaluated at market value, in contra-entry to a specific stockholders' equity account.

(c) Interbank accounts, credit operations and Interbank and time deposits

Fixed operations were recorded at future value, rectified by the unearned income/expenses, and post-fixed operations were recorded at the restated amount, both on a daily pro rata basis up to the balance sheet date.

(d) Allowance for possible loan losses

The allowance for possible loan losses is estimated based on analysis of transactions carried out by management to determine their realization value, and takes into consideration the economic scenario, past experience and the specific and overall risks of each transaction, as well as the rules and instructions established by BACEN.

(e) Deferred receivables and tax liabilities

Deferred receivables and tax liabilities, arising from the evaluation to marketable securities and derivative financial instruments, were calculated and recorded in accordance with the standards established by BACEN Circular N° 3171/02, taking into consideration the income tax and social contribution rates in effect.

(f) Permanent assets

Investments - Investments in subsidiaries are accounted for by the equity method. Other investments are valued at cost, and securities on the Futures and Commodities Exchange (BM&F) and Clearing House for the Custody and Financial Settlement of Securities (CETIP) were revalued based on the equity value and the result of these revaluations was recorded in capital reserves - revaluation of securities.

Fixed assets - stated at cost of acquisition, net of the depreciation calculated on the straight-line basis, based on the estimated useful lives of assets, being furniture and fixture, machinery and equipment - 10% and data processing equipment - 20%.

Deferred charges - basically comprises improvements to leasehold properties, recorded at costs of acquisition and amortized on a straight-line basis, considering the term of the lease.

(g) Current and long-term liabilities

Liabilities are stated at known or estimated values, including, when applicable, the related accrued charges and monetary and/or exchange variations on a daily pro rata basis.

(h) Income tax and social contribution

Provision for income tax was calculated at the rate of 15% on taxable income and, when applicable, plus an additional rate of 10% on taxable income in excess of R\$ 240. The provision for social contribution was calculated at the rate of 9% on profit before income tax, adjusted in accordance with current legislation.

(i) Derivative financial instruments

Transactions with derivatives are as follows:

- Options - The face value of 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.
- 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 recognized monthly in income.
- Swap - Swap contracts are recorded in memorandum accounts at the nominal amounts. The differences payable or receivable are recorded in equity accounts.

Derivatives are valued at market value, recording the valuation and/or devaluation, in accordance with the respective classifications:

- (i) Not to be used in hedge: recorded in income for the year;
- (ii) To be used in market risk hedge: recorded in income for the year; and
- (iii) To be used in cash flow hedge: the valuation and/or devaluation of the effective portion of the hedge are recorded as balancing items in a specific stockholders' equity account.

(j) Adjustment to market value

Adjustment to market value of securities and derivative financial instruments is based on quotations of prices and market agents and on pricing models usually adopted by the financial institutions and their representative associations.

3 Consolidated Financial Statements

The consolidated financial statements were prepared in conformity with the consolidation principles prescribed by the accounting practices adopted in Brazil.

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 (a) 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 consolidated financial statements comprise the following institutions and companies:

	Percentage participation	
	2004	2003
Banco Modal S.A.		
Modal Trading S.A.	100,0%	100,0%
Modal Energy S.A.	100,0%	100,0%
Modal Asset Management Ltda.	100,0%	-

Notes to the Financial Statements

at December 31, 2004 and 2003 (All amounts in thousands of reais unless otherwise indicated)

4 Marketable Securities and Derivative Financial Instruments

(a) Marketable securities

	Maturity	2004			2003		
		Restated cost	Market value	Unrealized gain (loss)	Restated cost	Market value	Unrealized gain (loss)
Own portfolio:							
Trading securities							
Shares of publicly-traded companies		2,069	2,047	(21)	590	615	25
Securities available for sale							
Debentures	Up to Dec/08	8,882	9,384	502	-	-	-
National Treasury Bills	Up to Oct/05	29,413	29,364	(49)	-	-	-
National Treasury Bills	Up to Oct/04	-	-	-	58,787	58,789	2
		38,295	38,748	453	58,787	58,789	2
		40,364	40,795	432	59,377	59,404	27
Subject to repurchase agreements:							
Securities available for sale							
National Treasury Bills	Up to Oct/05	121,450	121,318	(132)	-	-	-
National Treasury Bills	Up to April/04	-	-	-	108,049	108,019	(30)
National Treasury Notes	Up to Sept/06	-	-	-	132,086	133,370	1,284
		121,450	121,318	(132)	240,135	241,389	1,254
Pledged as collateral:							
Trading securities							
Shares of publicly-traded companies		3,586	3,606	20	8,164	12,530	4,366
Securities available for sale							
National Treasury Bills	Up to April/05	40,652	40,580	(72)	-	-	-
National Treasury Bills	Up to Oct/04	-	-	-	70,299	70,244	(55)
		40,652	40,580	(72)	70,299	70,244	(55)
		44,238	44,186	(52)	78,463	82,774	4,311
Linked to the Brazilian Central Bank:							
Securities available for sale							
National Treasury Bills	Up to Oct/05	4,324	4,315	(9)	-	-	-
National Treasury Bills	Up to Jul/04	-	-	-	9,120	9,198	78
		4,324	4,315	(9)	9,120	9,198	78

Adjustment to market value for trading securities was recorded in income for the year. Unrealized gains (losses) arising from the adjustment to market value of securities available for sale were recorded in a specific stockholders' equity account, as shown below:

	2004	2003
Opening balance	1,279	10
Adjustment in specific stockholders' equity account (Note 12.e)	(1,039)	1,269
	240	1,279

(b) Derivative financial instruments

	2004			2003		
	Restated cost	Market value	Unrealized gain (loss)	Restated cost	Market value	Unrealized gain (loss)
Asset position:						
Premiums on stock options	1,749	742	(1,007)	4,257	2,756	(1,501)
Differential on swap transactions	11,149	9,347	(1,802)	10,388	7,405	(2,983)
	12,898	10,089	(2,809)	14,645	10,161	(4,484)
Current	(6,294)	(5,532)		(3,224)	(8,935)	
Long-term	6,604	4,557		11,421	1,226	
Liability position:						
Premiums on written options	3,398	3,685	(287)	5,528	2,816	2,712
Differential on swap transactions	4,212	1,787	2,425	237	859	(622)
	7,610	5,472	2,138	5,765	3,675	2,090
Current	(7,154)	(5,135)		(103)	(2,991)	
Long-term	456	337		5,662	684	

Gains with adjustment to market value of derivative financial instruments, in the amount of R\$ 1,723 (2003 - losses of R\$ 5,309), were recorded in results for the year in "Income from derivative financial instruments"

The Bank participates 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.

The operations with these instruments are duly registered in the Futures and Commodities Exchange (BM&F), in the Clearing House for the Custody and Financial Settlement of Securities (CETIP) and/or in the Brazilian Center for Settlement and Custody (CBLC). For the operations maintained with these institutions at December 31, 2004, margins in guarantee were required in the amount of R\$ 44,186 (2003 - R\$ 82,774), which are represented by public securities and shares of publicly-traded companies (2003 - public securities and guarantees).

Commitments derived from operations with derivatives recorded in memorandum accounts on December 31, 2004 and 2003 are as follows:

(b.1) By Index

	Place of trading	2004		2003	
		Asset position	Liability position	Asset position	Liability position
Options market:					
Shares	CBLC	-	-	6,800	156,121
Financial assets					
Call options	BM&F	614,050	623,300	350,250	1,538,460
Put options	BM&F	-	14,250	571,352	-
Futures market:					
Interest rate	BM&F	41,835	325,082	843,551	283,066
Currency	BM&F	112,511	13,967	59,229	69,133
Swap:					
Interest rate	CETIP	38,292	7,937	179,028	1,417
Currency	CETIP	5,220	30,585	1,354	171,934
Interest rate	BM&F	362,631	348,902	21,072	24,527
Currency	BM&F	-	-	-	204
Price indexes	BM&F	392,031	403,190	24,704	21,530

Notes to the Financial Statements

at December 31, 2004 and 2003 (All amounts in thousands of reais unless otherwise indicated)

(b.2) By maturity

	Up to 30 days	From 31 to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Total	
						2004	2003
Options market:							
Shares							
Purchase contracts	-	-	-	-	-	-	6,800
Sales contracts	-	-	-	-	-	-	156,121
Financial assets							
Purchase contracts	614,050	-	-	-	-	614,050	921,602
Sales contracts	584,250	45,500	-	7,800	-	637,550	1,538,460
Futures market:							
Purchase contracts	7,953	3,392	3,954	50,979	88,068	154,346	902,780
Sales contracts	158,945	9,322	76,731	88,114	5,937	339,049	352,199
Swap:							
Asset position	8,675	1,372	171,064	478,795	138,268	798,174	226,158
Liability position	8,199	982	170,605	476,780	134,048	790,614	219,612

5 Risk Management

The management of risk in the operations is performed through control and limit policies defined by a Risk Committee, formed by senior management, the economic department and the risk area, which is totally independent from the Bank's business area.

(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.

(b) Liquidity risk

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 Bank 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.

6 Credit Operations

Credit operations are classified in nine risk levels and the allowance for possible loan losses is made based on the clients' rating under the risk levels defined by the National Monetary Council (CMN). This rating considers, among others, a cyclical analysis of the operation, overdue payments, the clients' history and guarantees provided, when applicable.

The classification of loan operations is as follows:

(a) By type of client, economic activity and risk level

Type of credit	Type of client	Economic activity	Risk level	2004		2003		Provision percentage according to CMN Resolution nº 2682/99
				Balance	Provision for losses	Balance	Provision for losses	
Loans and discounted notes:								
	Corporate	Industry	AA	83,426	-	24,966	-	-
	Corporate	Commerce	AA	21,737	-	27,021	-	-
	Corporate	Service	AA	56,033	-	20,187	-	-
	Individual		AA	6,656	-	-	-	-
	Corporate	Commerce	B	29	(1)	-	-	1.00%
	Corporate	Service	B	912	(9)	-	-	1.00%
	Corporate	Commerce	C	-	-	371	(11)	3.00%
	Corporate	Service	C	145	(4)	1	-	3.00%
	Corporate	Industry	D	-	-	199	(20)	10.00%
	Corporate	Service	E	218	(65)	-	-	30.00%
	Corporate	Industry	F	297	(149)	-	-	50.00%
	Corporate	Industry	G	-	-	16	(11)	70.00%
	Corporate	Industry	H	182	(182)	98	(98)	100.00%
	Corporate	Commerce	H	252	(252)	-	-	100.00%
Financing:								
	Corporate	Commerce	AA	6,390	-	-	-	-
FINAME/BNDES onlendings:								
	Corporate	Industry	AA	72,598	-	88,947	-	-
	Corporate	Commerce	AA	7,271	-	6,145	-	-
	Corporate	Service	AA	1,553	-	-	-	-
	Individual		AA	4,601	-	5,123	-	-
				262,300	(662)	173,074	(140)	

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at December 31, 2004 and 2003 (All amounts in thousands of reais unless otherwise indicated)

(b) By maturity

Type of credit						2004
	Overdue		Falling due			Total
	Up to	From 181 to	Up to	From 181 to	After	
	180 days	360 days	180 days	360 days	360 days	
Loans and discounted notes	785	398	166,728	659	1,317	169,887
Financing	-	-	6,390	-	-	6,390
FINAME/BNDES onlendings	-	-	35,787	22,302	27,934	86,023
	785	398	208,905	22,961	29,251	262,300

Type of credit						2003
	Overdue		Falling due			Total
	Up to	From 181 to	Up to	From 181 to	After	
	180 days	360 days	180 days	360 days	360 days	
Loans and discounted securities	257	-	72,160	442	-	72,859
FINAME/BNDES onlendings	-	-	5,574	18,874	75,767	100,215
	257	-	77,734	19,316	75,767	173,074

(c) Credit assignment

The Bank carried out credit assignments without co-obligations, in accordance with CMN Resolution N° 2836/01. The values of these negotiations are presented as follows:

	2004	2003
Book value of credits assigned	49,813	27,475
Trading value of credits assigned	49,813	27,915
Gain on credit assignments	-	440

(d) Changes in the allowance for possible loan losses

	2004	2003
At the beginning of the year	140	1
Credits written-off during the year	(312)	-
Constitution during the year	834	139
At the end to the year	662	140

7 Investments in Subsidiaries

	2004			2003	
	Modal Trading S.A.	Modal Energy S.A.	Modal Asset Management Ltda.	Modal Trading S.A.	Modal Energy S.A.
Number of shares/quotas held	100	100	100,998	100	100
Interest of Banco Modal S.A.	100%	100%	100%	100%	100%
Capital	1,653	127	106	1,059	30
Stockholders' equity	1,825	140	88	1,688	133
Net income (loss) for the year	179	10	(17)	233	13
Book value of investments	1,825	140	88	1,688	133
Equity in the earnings	179	10	(17)	233	13

8 Liabilities for Securities Issued Overseas

Represented by funds obtained from banks abroad, through the issue of securities in the foreign market (Eurobonds), in the amounts of:

	2004	2003
US\$ 27,000,000 restated using the exchange variation and interest of 6.5% per annum (p.a.), paying interest semi-annually and falling due in March 2006	72,898	-
US\$ 17,000,000 restated using the exchange variation and interest of 10% per annum (p.a.), paying interest in September 2003 and falling due in March 2004	-	50,481
	<u>72,898</u>	<u>50,481</u>
Current	(1,229)	(50,481)
Long-term	<u>71,669</u>	<u>-</u>

9 Interbank Onlendings

Represented by loans obtained in the financial market, through interbank onlendings in foreign currency, in the amount of R\$ 5,317, corresponding to US\$ 2,000,000 restated using the exchange variation plus interest of 1% per annum, with payment of interest and principal in May 2005.

10 Onlendings

	2004	2003
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% p.a. plus Long-term Interest Rate (TJLP), with maturities up to September 2009	79,409	92,854
Interest from 1.0% to 3% p.a. and restated with the BNDES basket of currency, with maturities up to April 2009	6,534	7,221
	<u>85,943</u>	<u>100,075</u>
Current	(58,009)	(24,308)
Long-term	<u>27,934</u>	<u>75,767</u>

11 Income Tax and Social Contribution

The reconciliation between the amounts calculated according to the nominal rates and the amounts recorded in the income statement is as follows:

	2004		2003	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxation and profit sharing	19,119	19,119	40,423	40,423
Profit sharing	(2,288)	(2,288)	(3,836)	(3,836)
Interest on capital	(6,500)	(6,500)	(6,200)	(6,200)
Adjustment to market value of securities and derivatives	3,024	3,024	553	553
Non-deductible provisions	834	834	139	139
Other permanent additions (exclusions)	101	99	(736)	(736)
Tax incentives	(281)	-	(174)	-
	<u>14,009</u>	<u>14,288</u>	<u>30,169</u>	<u>30,343</u>
Calculation basis	25%	9%	25%	9%
Nominal rate				
Current income tax and social contribution	3,478	1,286	7,518	2,731
Constitution (reversal) of deferred tax liabilities on temporary differences in the adjustment to market value of securities and derivatives	(1,116)	(402)	1,235	821
	<u>2,362</u>	<u>884</u>	<u>8,753</u>	<u>3,552</u>
Constitution of tax credits on temporary differences of the adjustment to market value of securities and derivatives	360	130	(1,626)	(586)
Income tax and social contribution - total	<u>2,722</u>	<u>1,014</u>	<u>7,127</u>	<u>2,966</u>
	<u>3,736</u>		<u>10,093</u>	

Notes to the Financial Statements

at December 31, 2004 and 2003 (All amounts in thousands of reais unless otherwise indicated)

The composition of consolidated income tax and social contribution for the year is as follows:

	2004		2003	
	Income tax	Social contribution	Income tax	Social contribution
Banco Modal S.A.	2,722	1,014	7,127	2,966
Modal Trading S.A.	43	24	55	29
Modal Energy S.A.	4	2	2	1
	<u>2,769</u>	<u>1,040</u>	<u>7,184</u>	<u>2,996</u>
	<u>3,809</u>		<u>10,180</u>	

Tax credits and deferred tax liabilities arising from the valuation to market of securities and derivatives were calculated as mentioned in Note 2, recorded at present value and presented as follows:

	2004	2003
Other receivables - sundry		
Deferred tax assets realizable in up to 360 days	<u>2,092</u>	<u>2,495</u>
Other liabilities - tax and social security contributions		
Deferred tax assets	<u>1,960</u>	<u>3,744</u>

12 Stockholders' Equity

(a) Capital

Capital comprises 16,200 common shares (2003 - 15,350) and 16,200 nominative preferred shares (2003 - 15,350), with no par value.

The Extraordinary General Meeting, held on May 23, 2003, approved the capital increase of R\$ 7,567, through the statutory reserve of R\$ 443 and retained earnings of R\$ 7,124, without issuance of new shares.

The Ordinary General Meeting, held on April 28, 2004, approved the capital increase of the Bank of R\$ 15,439, through the incorporation of retained earnings, without issuance of new shares.

The Extraordinary General Meeting, held on December 30, 2004, approved the capital increase of the Bank of R\$ 4,250, as a result of interest on capital, with issuance of 850 new nominative preferred shares and 850 new common shares. The capital increases made in 2004 are being evaluated by BACEN to homologate them.

(b) Share rights

The stockholders of the Bank are assured a minimum dividend of 6% of capital, not less than 25% of net income adjusted in accordance with Law N° 6404/76.

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

At the Extraordinary General Meeting held on June 30, 2004, the anticipated distribution of dividends related to 2004 was approved, in the amount of R\$ 1,050 (R\$ 34.20 per share).

(c) Interest on capital

In 2004, using the rights established in Article 9 of Law N° 9249/95, the Bank assigned to its stockholders interest on capital in the amount of R\$ 6,500, corresponding to R\$ 200.62 per share (2003 - R\$ 6,200; R\$ 201,95 per share), which reduced the expenses with income tax and social contribution for the year ended December 31, 2004 by R\$ 2,210 (2003 - R\$ 2,108).

To comply with the standards issued by the federal tax management, the Bank recorded the amount of interest on capital in "Other operating expenses" and, later, for purposes of presentation of the financial statements, reversed this amount in the same income account for the year and presented it as net income distribution for the year, in changes in stockholders' equity.

(d) Legal reserve

This reserve is set up at an amount equivalent to 5% of net income calculated each year, up to the limit established by the Brazilian Corporate Law.

(e) Adjustment to market value - securities and derivatives

It represents unrealized gains and losses, arising from the adjustment to market value of securities classified as "available for sale", as stated in Note 4. These gains and losses are transferred to the corresponding income accounts for the year on the date on which it is realized.

	2004	2003
Opening balance	844	6
Adjustment of securities (Note 4)	(1,039)	1,269
Tax effects	353	(431)
At December 31	<u>158</u>	<u>844</u>

13 Operational Limit (Basel Agreement)

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

At December 31, 2004, the Bank is classified in this operational limit, with the Basel ratio of 50.20% (2003 - 43.07%) of the referential equity.

14 Contingent Liabilities

The Bank's income tax returns and taxes and contributions are subject to review by the tax authorities, during the prescription periods established in specific legislation. Contingent liabilities arising from litigations or notifications of the supervising entities are evaluated by management with the support of the legal advisors of the Bank and those considered as possible losses are disclosed in notes, and those classified as probable losses are accrued in the financial statements.

15 Other Information

(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 the Bank. Net equity of the funds managed by the Bank at December 31, 2004 totaled R\$ 55,868 (2003 - R\$ 14,274).

(b) At December 31, 2004, the Bank had co-obligations from guarantees provided in the amount of R\$ 32,360 (2003 - R\$ 19,059).

(c) At December 31, 2004, the account "Other receivables" was mainly represented by taxes for offset in the amount of R\$ 2,832 (2003 - R\$ 2,944) and management and performance fees of the funds managed by the Bank of R\$ 357 (2003 - R\$ 373) and deferred tax assets of R\$ 2,092 (2003 - R\$ 2,495) (Note 11).

(d) At December 31, 2004, the account "Other operating income" is represented basically by income from foreign exchange variation, in the amount of R\$ 9,822. Of this amount, R\$ 9,494 (2003 - R\$ 11,585) arises from liabilities for securities issued overseas (Note 8) and R\$ 328 arises from interbank onlendings (Note 9), whose currency hedge, through derivative financial instruments, resulted in an inverted result recorded in "Income from derivative financial instruments".