

(A free translation of the original in Portuguese)

Banco Modal S.A. and Subsidiaries

**Financial Statements at
December 31, 2005 and 2004
and Report of Independent Auditors**

(A free translation of the original in Portuguese)

Report of Independent Auditors

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

- 1 We have audited the accompanying balance sheets of Banco Modal S.A. and the consolidated balance sheets of Banco Modal S.A. and its subsidiaries as of December 31, 2005 and 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 years then ended and for the second six-month period of 2005. 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, 2005 and 2004 and the results 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 years then ended and the second six-month period of 2005, in accordance with accounting practices adopted in Brazil.

Rio de Janeiro, January 16, 2006

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

Eduardo Corrêa
Contador CRC 1RJ027760/O-8

Banco Modal S.A. and Subsidiaries

Balance Sheets at December 31 In thousands of reais

(A free translation of the original in Portuguese)

	Banco Modal S.A.		Consolidated			Banco Modal S.A.		Consolidated	
	2005	2004	2005	2004		2005	2004	2005	2004
Assets					Liabilities and stockholders' equity				
Current assets					Current liabilities				
Cash and cash equivalents					Deposits				
Cash	22	25	24	25	Demand deposits	3,039	152	3,035	148
Free reserves	602	278	602	278	Interbank deposits	-	16,446	-	16,446
	624	303	626	303	Time deposits	39,882	74,955	38,995	72,888
Interbank investments - Open market investments	7,004	-	7,004	-		42,921	91,553	42,030	89,482
Marketable securities and derivative financial instruments					Deposits received under security repurchase agreements				
Own portfolio	46,495	40,795	47,780	40,795	Own portfolio	142,030	122,330	142,030	122,330
Subject to repurchase agreements	134,556	121,318	134,556	121,318	Funds from acceptances and issuance of securities				
Subject to guarantees	27,620	44,186	27,620	44,186	Liabilities for securities issued overseas	64,451	1,229	64,451	1,229
Restricted deposits - Brazilian Central Bank	-	4,315	-	4,315	Interbank accounts				
Derivative financial instruments	29,721	5,532	29,721	5,532	Interbank onlendings	-	5,317	-	5,317
	238,392	216,146	239,677	216,146	Onlendings				
Interbank accounts					FINAME/BNDES	12,500	58,009	12,500	58,009
Restricted receivables - deposits with the Brazilian Central Bank	235	131	235	131	Derivative financial instruments	25,246	5,135	25,246	5,135
Correspondent banks in Brazil	5	1,436	6	1,436	Other liabilities				
	240	1,567	241	1,567	Tax payment and collection	76	45	76	45
Credit operations					Social and statutory	2,504	642	2,504	642
Public sector					Taxes and social security contributions	7,489	8,148	7,544	8,169
Financing	8,027	-	8,027	-	Negotiation and intermediation of securities	11,818	7,006	11,818	7,006
(-) Allowance for possible loan losses	(80)	-	(80)	-	Other	5,620	2,471	5,656	2,472
	7,947	-	7,947	-		27,507	18,312	27,598	18,334
Private sector						314,655	301,885	313,855	299,836
Loans and discounted securities	120,920	168,570	120,920	168,570	Long-term liabilities				
Financing	-	6,390	-	6,390	Deposits				
FINAME/BNDES onlendings	12,526	58,089	12,526	58,089	Time deposits	17,628	16,112	17,628	16,112
(-) Allowance for possible loan losses	(4,862)	(662)	(4,862)	(662)	Funds from acceptance and issue of securities				
	128,584	232,387	128,584	232,387	Liabilities for securities issued overseas	-	71,669	-	71,669
	136,531	232,387	136,531	232,387	Onlendings				
Other receivables					FINAME/BNDES	15,038	27,934	15,038	27,934
Income receivable	56	45	-	-	Derivative financial instruments	-	337	-	337
Negotiation and intermediation of securities	2,313	678	2,313	678	Other liabilities				
Sundry	6,100	5,539	5,966	5,588	Taxes and social security contributions	406	107	406	107
	8,469	6,262	8,279	6,266		33,072	116,159	33,072	116,159
Other receivables and assets - Prepaid expenses	20	139	35	139	Stockholders' equity				
	391,280	456,804	392,393	456,808	Capital				
Long-term receivables					In Brazil				
Marketable securities and derivative financial instruments	1,143	4,557	1,143	4,557	From residents in the country	73,482	53,793	73,928	53,793
instruments					Capital increase	2,550	19,689	2,550	19,689
Credit operations - private sector					Capital reserve	201	182	201	182
Loans and discounted securities	20,052	1,317	20,052	1,317	Revenue reserves	12,046	1,669	11,369	1,669
FINAME/BNDES onlendings	15,038	27,934	15,038	27,934	Adjustment to market value - securities and derivatives	979	158	979	158
	35,090	29,251	35,090	29,251	Retained earnings	-	4,891	-	4,891
Other receivables - Sundry	2,433	75	2,433	75		89,258	80,382	89,027	80,382
	38,666	33,883	38,666	33,883					
Permanent assets					Total liabilities and stockholders' equity	436,985	498,426	435,954	496,377
Investments									
In subsidiaries	2,144	2,053	-	-					
Other investments	591	572	591	572					
Property and equipment	4,152	4,920	4,152	4,920					
Deferred charges	152	194	152	194					
	7,039	7,739	4,895	5,686					
Total assets	436,985	498,426	435,954	496,377					

Banco Modal S.A. and Subsidiaries

Statements of Income

In thousands of reais, except for the net income per share (A free translation of the original in Portuguese)

	Banco Modal S.A.			Consolidated		
	2nd six-month period of 2005	Years ended December 31		2nd six-month period of 2005	Years ended December 31	
		2005	2004		2005	2004
Income from gains on financial intermediation						
Credit operations	25,223	55,265	51,134	25,223	55,265	51,134
Marketable securities	13,774	35,334	33,556	13,850	35,410	33,556
Income from derivative financial instruments	1,836	(11,573)	(13,405)	1,836	(11,573)	(13,405)
Income from compulsory investments	-	-	1	-	-	1
	<u>40,833</u>	<u>79,026</u>	<u>71,286</u>	<u>40,909</u>	<u>79,102</u>	<u>71,286</u>
Expenses from financial intermediation						
Funds obtained in the market	(15,720)	(37,826)	(42,311)	(15,605)	(37,534)	(42,018)
Borrowings and onlendings	(2,344)	(5,432)	(12,663)	(2,344)	(5,432)	(12,663)
Allowance for possible loan losses	(2,338)	(6,183)	(834)	(2,338)	(6,183)	(834)
	<u>(20,402)</u>	<u>(49,441)</u>	<u>(55,808)</u>	<u>(20,287)</u>	<u>(49,149)</u>	<u>(55,515)</u>
Gross operating income	<u>20,431</u>	<u>29,585</u>	<u>15,478</u>	<u>20,622</u>	<u>29,953</u>	<u>15,771</u>
Other operating income (expenses)						
Income from services rendered	2,138	3,688	15,709	2,479	4,294	15,709
Personnel expenses	(4,975)	(9,289)	(8,578)	(5,534)	(10,378)	(8,578)
Other administrative expenses	(5,017)	(10,180)	(9,752)	(5,171)	(10,398)	(9,784)
Tax expenses	(1,362)	(2,554)	(3,459)	(1,423)	(2,654)	(3,477)
Equity in the earnings of subsidiaries	(327)	(299)	172	-	-	-
Other operating income	-	5,925	9,861	-	5,927	9,863
Other operating expenses	(63)	(70)	(101)	(63)	(70)	(101)
	<u>(9,606)</u>	<u>(12,779)</u>	<u>3,852</u>	<u>(9,712)</u>	<u>(13,279)</u>	<u>3,632</u>
Operating profit	<u>10,825</u>	<u>16,806</u>	<u>19,330</u>	<u>10,910</u>	<u>16,674</u>	<u>19,403</u>
Non-operating income	<u>(4)</u>	<u>(9)</u>	<u>(211)</u>	<u>(4)</u>	<u>(9)</u>	<u>(211)</u>
Income before taxation and profit sharing	<u>10,821</u>	<u>16,797</u>	<u>19,119</u>	<u>10,906</u>	<u>16,665</u>	<u>19,192</u>
Income tax and social contribution						
Provision for income tax	(916)	(3,177)	(2,362)	(950)	(3,243)	(2,409)
Provision for social contribution	(359)	(1,177)	(884)	(376)	(1,210)	(910)
Deferred tax asset	(964)	1,407	(490)	(964)	1,407	(490)
	<u>(2,239)</u>	<u>(2,947)</u>	<u>(3,736)</u>	<u>(2,290)</u>	<u>(3,046)</u>	<u>(3,809)</u>
Profit sharing	<u>(1,564)</u>	<u>(2,224)</u>	<u>(2,288)</u>	<u>(1,564)</u>	<u>(2,224)</u>	<u>(2,288)</u>
Net income for the period/year	<u>7,018</u>	<u>11,626</u>	<u>13,095</u>	<u>7,052</u>	<u>11,395</u>	<u>13,095</u>
Interest on capital	<u>(3,000)</u>	<u>(5,200)</u>	<u>(6,500)</u>	<u>(3,000)</u>	<u>(5,200)</u>	<u>(6,500)</u>
Net income per share - R\$	<u>210.43</u>	<u>348.61</u>	<u>404.17</u>			

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

Banco Modal S.A.

Statements of Changes in Stockholders' Equity In thousands of reais

(A free translation of the original in Portuguese)

	Capital	Capital increase	Capital reserve	Revenue reserves		Adjustment to market value - Securities and derivatives	Retained earnings	Total
			Restatement of equity securities	Legal	Statutory			
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 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 2004	-	19,689	24	654	-	(686)	(10,548)	9,133
Year ended December 31, 2005								
At January 1, 2005	53,793	19,689	182	1,669	-	158	4,891	80,382
Restatement of equity securities - BM&F and CETIP	-	-	19	-	-	-	-	19
Capital increase homologated by BACEN	19,689	(19,689)	-	-	-	-	-	-
Capital increase being homologated by BACEN	-	2,550	-	-	-	-	-	2,550
Adjustment to market value - securities and derivatives	-	-	-	-	-	821	-	821
Net income for the year	-	-	-	-	-	-	11,626	11,626
Appropriations:								
Constitution of reserves	-	-	-	581	9,796	-	(10,377)	-
Interest on capital (R\$ 155.92 per share)	-	-	-	-	-	-	(5,200)	(5,200)
Dividends proposed (R\$ 28.18 per share)	-	-	-	-	-	-	(940)	(940)
At December 31, 2005	73,482	2,550	201	2,250	9,796	979	-	89,258
Changes in 2005	19,689	(17,139)	19	581	9,796	821	(4,891)	8,876
Six-month period ended December 31, 2005								
At July 1, 2005	73,482	-	201	1,899	4,891	(90)	2,178	82,561
Capital increase being homologated by BACEN	-	2,550	-	-	-	-	-	2,550
Adjustment to market value - securities and derivatives	-	-	-	-	-	1,069	-	1,069
Net income for the six-month period	-	-	-	-	-	-	7,018	7,018
Appropriations:								
Constitution of reserves	-	-	-	351	4,905	-	(5,256)	-
Interest on capital (R\$ 89.95 per share)	-	-	-	-	-	-	(3,000)	(3,000)
Dividends proposed (R\$ 28.18 per share)	-	-	-	-	-	-	(940)	(940)
At December 31, 2005	73,482	2,550	201	2,250	9,796	979	-	89,258
Changes in the six-month period	-	2,550	-	351	4,905	1,069	(2,178)	6,697

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

Banco Modal S.A. and Subsidiaries

Statements of Changes in Financial Position In thousands of reais

(A free translation of the original in Portuguese)

	Banco Modal S.A.			Consolidated		
	2nd six-month period of 2005	Years ended December 31		2nd six-month period of 2005	Years ended December 31	
		2005	2004		2005	2004
Financial resources were provided by						
Adjusted net income						
Net income for the six-month period/year	7,018	11,626	13,095	7,052	11,395	13,095
Adjustments to net income						
Depreciation and amortization	536	1,066	657	536	1,066	657
Equity in income of subsidiaries	327	299	(172)	-	-	-
	<u>7,881</u>	<u>12,991</u>	<u>13,580</u>	<u>7,588</u>	<u>12,461</u>	<u>13,752</u>
Adjustment to market value - securities and derivative financial instruments	1,069	821	(686)	1,069	821	(686)
Funds from stockholders						
Increase in capital	2,550	2,550	4,250	2,550	2,550	4,250
Third-party resources						
Increase in liabilities						
Deposits	19,056	-	-	20,269	-	-
Deposits received under securities repurchase agreements	57,570	19,700	-	57,570	19,700	-
Funds from acceptances and issue of securities abroad	-	-	22,417	-	-	22,417
Interbank accounts	-	-	5,317	-	-	5,317
Derivative financial instruments	9,155	19,774	1,797	9,155	19,774	1,797
Other liabilities	9,719	9,494	-	9,624	9,562	-
Decrease in assets						
Interbank investments	-	-	11,008	-	-	11,008
Securities and derivative financial instruments	-	-	182,223	-	-	182,223
Interbank accounts	91	1,327	-	91	1,327	-
Credit operations	-	90,017	-	-	90,017	-
Other receivables	-	-	3,185	-	-	3,233
Other receivables and assets	41	119	-	53	104	-
Dividends received from associated and subsidiary companies	56	56	45	-	-	-
Total funds provided	<u>107,188</u>	<u>156,849</u>	<u>243,136</u>	<u>107,969</u>	<u>156,316</u>	<u>243,311</u>

Banco Modal S.A. and Subsidiaries

Statements of Changes in Financial Position In thousands of reais

(continued)

	Banco Modal S.A.			Consolidated		
	2 nd six-month period of 2005	Years ended December 31		2 nd six-month period of 2005	Years ended December 31	
		2005	2004		2005	2004
Financial resources were used for						
Dividends proposed	940	940	1,050	940	940	1,050
Interest on capital	3,000	5,200	6,500	3,000	5,200	6,500
Investments:						
Investments	446	446	106	-	-	-
Property and equipment	104	256	2,149	104	256	2,149
Deferred charges	-	-	2,247	-	-	2,247
Increase in assets						
Interbank investments	7,004	7,004	-	7,004	7,004	-
Securities and derivative financial instruments	49,631	18,832	-	50,916	20,117	-
Interbank accounts	-	-	1,033	-	-	1,033
Credit operations	25,243	-	88,704	25,243	-	88,704
Other receivables	2,998	4,565	-	2,944	4,371	-
Other receivables and assets	-	-	36	-	-	36
Decrease in liabilities						
Deposits	-	47,116	4,684	-	45,936	4,898
Deposits received under securities repurchase agreements	-	-	110,883	-	-	110,883
Funds from acceptances and issuance of securities abroad	228	8,447	-	228	8,447	-
Interbank accounts	22	5,317	-	22	5,317	-
Onlendings	18,865	58,405	14,132	18,865	58,405	14,132
Other liabilities	-	-	11,747	-	-	11,814
Total resources used	108,481	156,528	243,271	109,266	155,993	243,446
Increase (decrease) in cash and cash equivalents	(1,293)	321	(135)	(1,297)	323	(135)
Changes in financial position						
Cash and cash equivalents						
At the beginning of the period/year	1,917	303	438	1,923	303	438
At the end of the period/year	624	624	303	626	626	303
Increase (decrease) in cash and cash equivalents	(1,293)	321	(135)	(1,297)	323	(135)

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

(A free translation of the original in Portuguese)

Banco Modal S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2005 and 2004 In thousands 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, and to also 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), which include estimates for the allowance for possible loan losses, allowances required for contingent liabilities and others, whose actual results may present variances in relation to the estimates.

(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 No. 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.

Banco Modal S.A. and Subsidiaries

Notes to the Financial Statements

at December 31, 2005 and 2004

In thousands of reais

(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

This allowance 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 and from the temporary differences in the allowance of the allowance for possible loan losses, were calculated and recorded in accordance with the standards established by BACEN Circular No. 3171/02, taking into consideration the income tax and social contribution rates in effect and the estimates of realization in conformity with the operation which generated them.

(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 directly recorded in capital reserve - Restatement of equity securities.

Fixed assets - Stated at cost of acquisition, net of the depreciation calculated on the straight-line basis, based on the 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 the straight-line basis, considering the term of the lease.

Banco Modal S.A. and Subsidiaries

Notes to the Financial Statements

at December 31, 2005 and 2004

In thousands of reais

(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.

Banco Modal S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais

(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. Thus, upon the financial settlement of these items the results may be different in relation to the estimates.

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.

(a) Institutions and companies included in the consolidation

The consolidated financial statements in 2005 and 2004 comprise Banco Modal S.A. and the wholly-owned subsidiaries Modal Trading S.A., Modal Energy S.A. and Modal Asset Management Ltda.

(b) Reconciliation between stockholders' equity and net equity of Banco Modal S.A. and of the consolidated

	<u>2005</u>	
	<u>Stockholders' equity</u>	<u>Net equity</u>
Banco Modal S.A.	89,258	11,626
Unsecured liabilities of the subsidiary Modal Asset Management Ltda. (Note 7)	<u>(231)</u>	<u>(231)</u>
Consolidated	<u>89,027</u>	<u>11,395</u>

Banco Modal S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais

4 Marketable Securities and Derivative Financial Instruments

(a) Marketable securities

	Maturity	2005			2004		
		Restated cost	Market value	Unrealized gain (loss)	Restated cost	Market value	Unrealized gain (loss)
Own portfolio:							
Trading securities							
Shares of publicly-traded companies		2,168	2,154	(14)	2,069	2,047	(21)
Quotaholdings in investment funds		1,060	1,060	-	-	-	-
		<u>3,228</u>	<u>3,214</u>	<u>(14)</u>	<u>2,069</u>	<u>2,047</u>	<u>(21)</u>
Securities available for sale							
Debentures	Up to dec/08	2,735	2,765	30	8,882	9,384	502
National Treasury Bills	Up to apr/06	38,880	38,963	83	-	-	-
National Treasury Bills	Up to jan/07	859	859	-	-	-	-
National Treasury Bills	Up to oct/05	-	-	-	29,413	29,364	(49)
Financial Treasury Bills	Up to sep/08	694	694	-	-	-	-
		<u>43,168</u>	<u>43,281</u>	<u>113</u>	<u>38,295</u>	<u>38,748</u>	<u>453</u>
		<u>46,396</u>	<u>46,495</u>	<u>99</u>	<u>40,364</u>	<u>40,795</u>	<u>432</u>
Subject to repurchase agreements:							
Securities available for sale							
National Treasury Bills	Up to apr/06	63,881	64,017	136	-	-	-
National Treasury Bills	Up to oct/05	-	-	-	121,450	121,318	(132)
National Treasury Notes	Up to aug/06	14,869	15,452	583	-	-	-
National Treasury Notes	Up to may/09	54,488	55,087	601	-	-	-
		<u>133,238</u>	<u>134,556</u>	<u>1,320</u>	<u>121,450</u>	<u>121,318</u>	<u>(132)</u>
Pledged as collateral:							
Trading securities							
Shares of publicly-traded companies		4,016	3,817	(199)	3,586	3,606	20
Securities available for sale							
National Treasury Bills	Up to apr/06	23,752	23,803	51	-	-	-
National Treasury Bills	Up to apr/05	-	-	-	40,652	40,580	(72)
		<u>23,752</u>	<u>23,803</u>	<u>51</u>	<u>40,652</u>	<u>40,580</u>	<u>(72)</u>
		<u>27,768</u>	<u>27,620</u>	<u>(148)</u>	<u>44,238</u>	<u>44,186</u>	<u>(52)</u>
Linked to the Brazilian Central Bank:							
Securities available for sale							
National Treasury Bills	Up to oct/05	-	-	-	4,324	4,315	(9)

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The portfolio of marketable securities of the consolidated includes an amount of R\$ 1,285 represented by quotaholdings in fixed income investment funds.

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:

	<u>2005</u>	<u>2004</u>
At January 1	240	1,279
Adjustment in specific stockholders' equity account (Note 13.f)	<u>1,244</u>	<u>(1,039)</u>
At December 31	<u>1,484</u>	<u>240</u>

(b) Derivative financial instruments

	<u>2005</u>			<u>2004</u>		
	<u>Restated cost</u>	<u>Market value</u>	<u>Un-realized gain (loss)</u>	<u>Restated-cost</u>	<u>Market value</u>	<u>Un-realized gain (loss)</u>
Asset position:						
Premiums on stock options	156	9	(147)	1,749	742	(1,007)
Forward purchase receivable	6,977	7,131	154	-	-	-
Differential on swap transactions	<u>20,653</u>	<u>23,724</u>	<u>3,071</u>	<u>11,149</u>	<u>9,347</u>	<u>(1,802)</u>
	27,786	30,864	<u>3,078</u>	12,898	10,089	<u>(2,809)</u>
Current	<u>27,716</u>	<u>29,721</u>		<u>(6,294)</u>	<u>(5,532)</u>	
Long-term	<u>70</u>	<u>1,143</u>		<u>6,604</u>	<u>4,557</u>	
Liability position:						
Premiums on written options	381	-	381	3,398	3,685	(287)
Forward purchase payable	6,971	6,971	-	-	-	-
Differential on swap transactions	<u>16,945</u>	<u>18,275</u>	<u>(1,330)</u>	<u>4,212</u>	<u>1,787</u>	<u>2,425</u>
	24,297	25,246	<u>(949)</u>	7,610	5,472	<u>2,138</u>
Current	<u>24,177</u>	<u>25,246</u>		<u>(7,154)</u>	<u>(5,135)</u>	
Long-term	<u>120</u>	<u>-</u>		<u>456</u>	<u>337</u>	

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Gains with adjustment to market value of derivative financial instruments, in the amount of R\$ 2,800 (2004 - R\$ 1,723), were recorded in results for the year in "Income from derivative financial instruments".

Banco Modal S.A. 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 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, 2005, margins in guarantee were required in the amount of R\$ 27,620 (2004 - R\$ 44,186), which are represented by public securities and shares of publicly-traded companies.

Commitments derived from operations with derivatives recorded in memorandum accounts on December 31, 2005 and 2004 are as follows:

(b.1) By Index

	Place of trading	2005		2004	
		Asset position	Liability position	Asset position	Liability position
Options market:					
Financial assets					
Call options	BM&F	60,000	8,325	614,050	623,300
Put options	BM&F	-	21,750	-	14,250
Futures market:					
Interest rate	BM&F	236,140	162,822	41,835	325,082
Currency	BM&F	-	39,856	112,511	13,967
Ibovespa		20,227	-	-	-
Options market:					
Shares	CBLC	7,134	6,971	-	-
Swap					
Interest rate	CETIP	6,614	28,128	38,292	7,937
Currency	CETIP	29,368	4,102	5,220	30,585
Interest rate	BM&F	393,185	437,668	362,631	348,902
Price indexes	BM&F	501,645	455,465	392,031	403,190

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(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	<u>Total</u>	
						2005	2004
Options market:							
Financial assets							
Purchase contracts	60,000	-	-	-	-	60,000	614,050
Sales contracts	26,700	3,375	-	-	-	30,075	637,550
Futures market:							
Purchase contracts	27,233	20,227	73,438	89,089	46,380	256,367	154,346
Sales contracts	18,726	21,130	143,930	-	18,892	202,678	339,049
Forward market							
Purchase contracts	7,134	-	-	-	-	7,134	-
Sales contracts	6,971	-	-	-	-	6,971	-
Swap:							
Asset position	74,154	-	522,766	311,223	22,669	930,812	798,174
Liability position	73,512	-	517,569	312,757	21,525	925,363	790,614

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 respected 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.

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(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:

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

Type of credit	Type of client	Economic activity	Risk level	2005		2004		Provision percentage according to CMN Resolution NO. 2682/99
				Balance	Provision for losses	Balance	Provision for losses	
Loans and discounted notes:								
	Corporate	Industry	AA	26,764	-	83,426	-	-
	Corporate	Commerce	AA	1,752	-	21,737	-	-
	Corporate	Service	AA	14,581	-	56,033	-	-
	Individual		AA	111	-	6,656	-	-
	Corporate	Industry	A	16,328	(82)	-	-	0,50%
	Corporate	Commerce	A	1,314	(7)	-	-	0,50%
	Corporate	Service	A	10,608	(53)	-	-	0,50%
	Corporate	Industry	B	12,768	(128)	-	-	1,00%
	Corporate	Commerce	B	5,598	(56)	29	(1)	1,00%
	Corporate	Service	B	30,939	(309)	912	(9)	1,00%
	Corporate	Industry	C	12,315	(370)	-	-	3,00%
	Corporate	Commerce	C	3,280	(98)	-	-	3,00%
	Corporate	Service	C	226	(7)	145	(4)	3,00%
	Corporate	Service	D	9	(1)	-	-	10,00%
	Corporate	Commerce	E	47	(14)	-	-	30,00%
	Corporate	Service	E	-	-	218	(65)	30,00%
	Corporate	Industry	F	-	-	297	(149)	50,00%
	Corporate	Service	F	1,663	(832)	-	-	50,00%
	Corporate	Industry	G	341	(239)	-	-	70,00%
	Corporate	Industry	H	111	(111)	182	(182)	100,00%
	Corporate	Commerce	H	452	(452)	252	(252)	100,00%
	Corporate	Service	H	1,765	(1,765)	-	-	100,00%
Financing:								
	Public Sector	Industry	B	8,027	(80)	6,390	-	1,00%
FINAME/BNDES onlendings:								
	Corporate	Industry	AA	2,374	-	72,598	-	-
	Corporate	Commerce	AA	-	-	7,271	-	-
	Corporate	Service	AA	1,609	-	1,553	-	-
	Individual		AA	-	-	4,601	-	-
	Corporate	Industry	A	6,609	(33)	-	-	0,50%
	Corporate	Industry	B	4,990	(50)	-	-	1,00%
	Corporate	Commerce	B	5,218	(52)	-	-	1,00%
	Corporate	Industry	C	3,157	(95)	-	-	3,00%
	Individual		C	3,607	(108)	-	-	3,00%
				176,563	(4,942)	262,300	(662)	
Current				<u>(141,473)</u>	<u>4,942</u>	<u>(233,049)</u>	<u>662</u>	
Long-term				<u>35,090</u>	<u>-</u>	<u>29,251</u>	<u>-</u>	

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(b) By maturity

							2005
			Overdue		Falling due		
Type of credit	Up to 180 days	From 181 to 360 days	After 360 days	Up to 180 days	From 181 to 360 days	After 360 days	Total
Loans and discounted notes	4,678	2,825	117	109,463	3,863	20,052	140,972
Financing	-	-	-	8,027	-	-	8,027
FINAME/BNDES onlendings	-	-	-	8,101	4,425	15,038	27,564
	<u>4,678</u>	<u>2,825</u>	<u>117</u>	<u>125,591</u>	<u>8,261</u>	<u>35,090</u>	<u>176,563</u>
							2004
			Overdue		Falling due		
Type of credit	Up to 180 days	From 181 to 360 days	After 360 days	Up to 180 days	From 181 to 360 days	After 360 days	Total
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
	<u>785</u>	<u>398</u>	<u>-</u>	<u>208,905</u>	<u>22,961</u>	<u>29,251</u>	<u>262,300</u>

(c) Credit assignment

The Bank carried out credit assignments without co-obligations, mainly to investment funds under its administration, in accordance with CMN Resolution No. 2836/01. The values of these negotiations are presented as follows:

	2005	2004
Book value of credits assigned	92,334	49,813
Trading value of credits assigned	<u>92,335</u>	<u>49,813</u>
Gain on credit assignments	<u>1</u>	<u>-</u>

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(d) Changes in the allowance for possible loan losses

	<u>2005</u>	<u>2004</u>
At the beginning of the year	662	140
Constitution during the year	6,183	834
Credits written-off during the year	<u>(1,903)</u>	<u>(312)</u>
At the end of the year	<u>4,942</u>	<u>662</u>

7 Investments in Subsidiaries

	<u>2005</u>			<u>2004</u>		
	<u>Modal Trading S.A.</u>	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>	<u>Modal Trading S.A.</u>	<u>Modal Energy S.A.</u>	<u>Modal Asset Management Ltda.</u>
Number of shares/quotas held	100	100	551,998	100	100	100,998
Interest of Banco Modal S.A.	100%	100%	100%	100%	100%	100%
Capital	1,942	139	552	1,653	127	106
Stockholders' equity (unsecured liabilities)	1,998	146	(231)	1,825	140	88
Net income (loss) for the year	227	8	(765)	179	10	(17)
Book value of investments	1,998	146	-	1,825	140	88
Equity in the earnings	227	8	(534)	179	10	(17)

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:

	<u>2005</u>	<u>2004</u>
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	<u>64,451</u>	<u>72,898</u>
	<u>(64,451)</u>	<u>(1,229)</u>
Long-term	<u>-</u>	<u>71,669</u>

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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

	<u>2005</u>	<u>2004</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:		
Long-term Interest Rate (TJLP) plus interest from 1.0% to 3% p.a. with maturities up to September 2010.	26,548	79,409
Interest from 2.5% to 3% p.a. and restatement according to the BNDES basket of currency, with maturities up to April 2009.	<u>990</u>	<u>6,534</u>
	27,538	85,943
Current	<u>(12,500)</u>	<u>(58,009)</u>
Long-term	<u>15,038</u>	<u>27,934</u>

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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:

	2005		2004	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxation and profit sharing	17,187	17,187	19,119	19,119
Profit sharing	(2,224)	(2,224)	(2,288)	(2,288)
Interest on capital	(5,200)	(5,200)	(6,500)	(6,500)
Adjustment to market value of securities and derivatives	(2,606)	(2,606)	3,024	3,024
Temporarily non-deductible provisions	6,183	6,183	834	834
Other permanent additions (exclusions)	160	149	101	99
Tax incentives	(283)	-	(281)	-
Calculation basis	13,217	13,489	14,009	14,288
Nominal rate	25%	9%	25%	9%
Current income tax and social contribution	3,280	1,214	3,478	1,286
Reversal of deferred tax liabilities on temporary differences in the adjustment to market value of securities and derivatives	(103)	(37)	(1,116)	(402)
	3,177	1,177	2,362	884
Reversal (constitution) of tax credits on temporary differences in the allowance for credit risk and in the adjustment to market value of securities and derivatives	(1,034)	(373)	360	130
Income tax and social contribution - total	2,143	804	2,722	1,014
	<u>2,947</u>		<u>3,736</u>	

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

	<u>2005</u>		<u>2004</u>	
	<u>Income tax</u>	<u>Social contribution</u>	<u>Income tax</u>	<u>Social contribution</u>
Banco Modal S.A.	2,143	804	2,722	1,014
Modal Trading S.A.	62	31	43	24
Modal Energy S.A.	4	2	4	2
	<u>2,209</u>	<u>837</u>	<u>2,769</u>	<u>1,040</u>
		<u>3,046</u>		<u>3,809</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:

	<u>2004</u>	<u>2003</u>
Other receivables - sundry		
Deferred tax assets realizable in up to 360 days	943	2,092
Deferred tax assets realizable after 360 days	<u>2,433</u>	<u>-</u>
	<u>3,376</u>	<u>2,092</u>
Other liabilities - tax and social security contributions		
Deferred tax liabilities in up to 360 days	1,713	1,960
Deferred tax liabilities after 360 days	<u>406</u>	<u>-</u>
	<u>2,119</u>	<u>1,960</u>

12 Other Liabilities

	<u>2005</u>	<u>2004</u>
Negotiation and intermediation of securities:		
Creditors - pending settlement account	2,011	3,367
Liabilities for the loan of shares	<u>9,807</u>	<u>3,639</u>
	<u>11,818</u>	<u>7,006</u>

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13 Stockholders' Equity

(a) Capital

Capital comprises R\$ 16,675 common shares (2004 - 16,200) and R\$ 16,675 nominative preferred shares (2004 - R\$ 16,200), with no par value.

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

The Extraordinary General Meeting, held on December 30, 2004, approved the capital increase of the Bank of R\$ 4,250, with funds obtained from interest on capital, with the issuance of 850 new nominative preferred shares and 850 new common shares. These capital increases were homologated by BACEN in April, 2005.

During an Ordinary General Meeting, held on December 29, 2005, shareholders approved the capital increase of the Bank of R\$ 2,550, through the issuance of 950 shares, of which 475 new common shares and the same amount of preferred shares, with funds obtained from the interest on capital, in the process of homologation by BACEN.

(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 No. 6404/76.

Preferred shares, with no voting rights, have priority on the return of capital, without the payment of premium in the case of the Bank's liquidation, 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).

At the Extraordinary General Meeting held on December 29, 2005, the anticipated distribution of dividends related to 2005 was approved, in the amount of R\$ 940 (R\$ 28.18 per share).

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(c) Interest on capital

In 2005, using the rights established in Article 9 of Law NO. 9249/95, the Bank assigned to its stockholders interest on capital in the amount of R\$ 5,200, corresponding to R\$ 155.92 per share (2004 - R\$ 6,500; R\$ 200.62 per share), which reduced the expenses with income tax and social contribution for the year ended December 31, 2005 by R\$ 1,768 (2004 - R\$ 2,210).

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 and presented it as net income distribution, 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 Brazilian Corporate Law.

(e) Statutory reserve

At the Extraordinary General Meeting held on May 10, 2005, shareholders approved the constitution of a reserve with the remaining balance of adjusted net income, deducted from the distribution of dividends and also with the balance of retained earnings at December 31, 2004, in order to transfer this to capital and/or distribute it to the shareholders. The balance of this reserve together with the other revenue reserve cannot exceed the social capital, otherwise the excess will have to be capitalized or distributed.

(f) 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.

	<u>2005</u>	<u>2004</u>
At January 1	158	844
Adjustment of securities (Note 4)	1,244	(1,039)
Tax effects	<u>(423)</u>	<u>353</u>
At December 31	<u>979</u>	<u>158</u>

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14 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, 2005, the Bank is classified in this operational limit, with the Basel ratio of 39.67% (2004 - 50.20%) of the referential equity.

15 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, so long as they are material, are disclosed in notes, and those classified as probable losses are accrued in the financial statements.

16 Other Information

- (a) At December 31, 2004, the account "Other receivables" was mainly represented by the prepayment of taxes for offset in the amount of R\$ 4,239 (2004 - R\$ 2,832) and deferred tax assets of R\$ 3,376 (2004 - R\$ 2,092) described in Note 11.
- (b) Income from services rendered refers basically to the income from the management and performance of investment funds and commissions received for performing structured operations for clients. Net equity of the funds managed by the Bank at December 31, 2005 totaled R\$ 47,967 (2004 - R\$ 55,868).
- (c) At December 31, 2005, the account "Other operating income" is represented basically by income from foreign exchange variation, in the amount of R\$ 5,802. Of this amount, R\$ 5,430 arises from liabilities for securities issued overseas (Note 8) whose currency hedge, through derivative financial instruments, resulted in an inverted result recorded in "Income from derivative financial instruments".

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In thousands of reais

- (d) At December 31, 2005, the Bank had co-obligations from guarantees provided in the amount of R\$ 32,207 (2004 - R\$ 32,360).
- (e) For purposes of comparing the financial statements, software license expenses, amounting to R\$ 2,041, were reclassified in 2004 and changed from "Deferred charges " to "Property and equipment".

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