

Annual Report 2002

M Banco Modal
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Letter from the Directors

The customary way to measure the performance of a bank is by observing its return on equity at the end of each year. In December 2002, the equity position of Banco Modal increased in value by 20%. However, taken by itself this information does not tell us much about the future we are building for our institution. What is really important for us is to know whether or not our clients are satisfied with our services, whether we are attracting new customers, whether we are creating the new products that they need and mainly, if we have succeeded in making them our partners in the true sense of the word.

Another important factor for us is the quality of our team, from the entry-level employee to the President. When reviewing our performance for the year, we examine the degree of team motivation, ability and training to see if it meets the needs of our customers and if it is among the very best teams in the financial market. We look to see if we have had the will to replace those who were not compatible with our working philosophy with others who will, in the future, be better than we are. Finally, we are constantly searching for employees with the potential to become partners.

We are certain that if our customers continue to place their confidence in our services, if we expand our portfolio of clients and if we are able to retain a motivated and qualified team of professionals, the results will be reflected in our returns on equity. Making money is essential for paying our associates, capitalizing the Bank and paying dividends to our shareholders, in that order. If we continue to satisfy the needs of our customers and take good care of our employees, we can expect to continue to reap these rewards. Using these as indicators of performance - return on equity and customer and employee satisfaction - we can say that the past year was a very good one, despite the long period of political uncertainty which lasted until the 2002 elections were decided in November, which left the markets in a holding pattern.

Even with a high degree of volatility, our assets doubled in 2002, thanks to a high level of operations and new qualitative credit opportunities. The Commercial and Middle Market areas both posted outstanding performances. As a financial agent for BNDES' export credit operations, Banco Modal demonstrated versatility and speed, nearly quadrupling the volume of pass-through operations. In the Middle Market, the portfolio increased to R\$ 40 million, with close to zero default. In Real Estate, we can point to the Hype Jardins project introduced in São Paulo. The Corporate Finance area increased the volume of third party funds under management, and participated in structured operations in the capital market.

Allied to our positive performance, the accuracy of our forecasts and the precision of our information caused Banco Modal to appear regularly on the list of Top 5 financial institutions (a daily survey prepared by the Central Bank of more than 120 institutions in Brazil and overseas regarding market expectations and macroeconomic indicators).

Brazil is the country where we have chosen to live and work - a young country struggling to take its place among the more developed nations, a country that is facing great challenges, but one that offers opportunities to those desiring to build and establish a Bank through hard work, faith and ethics. Let us stop blaming political, economic or social difficulties for occasional poor results. In the end, we understand crises: our Bank was born in June 1996 and since then we have endured the Asian Crisis, the Russian Crisis, the devaluation of the real and last year the political crisis involving the change in Government. And here we are today, victorious, ready to work and optimistic about our bank and about our country.

The year just past represented a defining moment for the Bank. Never has Brazil's ability to pay both its domestic and its foreign debt been so hotly challenged in the market. Never have psychological factors and market expectations, so exhaustively studied in the halls of academe, prevailed so clearly over the rationality of numbers. Never has market volatility been so great and the conduct of everyday affairs so difficult. The worldwide geopolitical tension together with weakness in the industrial economies heightened the aversion to total risk. The pronounced deterioration in the Real/Dollar exchange rate, the abrupt reversal of the trend in the reduction of interest rates, the third consecutive year of decline in Brazilian and international financial markets helped to make 2002 one of the most challenging and complex periods in Brazilian economic history. But on balance, the year was extremely positive, with the strengthening of democracy and the certainty that risk is also synonymous with great opportunities, both for our Bank and for Brazil.

In 2003, Banco Modal will continue to improve as an investment bank, growing slowly but surely, assuring the income to cover its costs, increasing the number of operations and working even more closely with our customers. The best evidence that our strategy is correct is the BBB rating awarded by Atlantic Rating - reviewed in April 2003 after the acquisition of Atlantic Rating by Fitch Rating. The revised rating is BBB⁻.

We continue to believe in Brazil and in our clients. The preliminary results for the first half on 2003 are promising, based on the short-term signs published by the Government at the beginning of its mandate. The new Government has shown competence and commitment, and the political scene reveals a mature opposition. We wish everyone a good year, despite the risk of a slowdown in the US economy and the uncertainties arising from the implementation of reforms in Brazil.

The Executive Committee



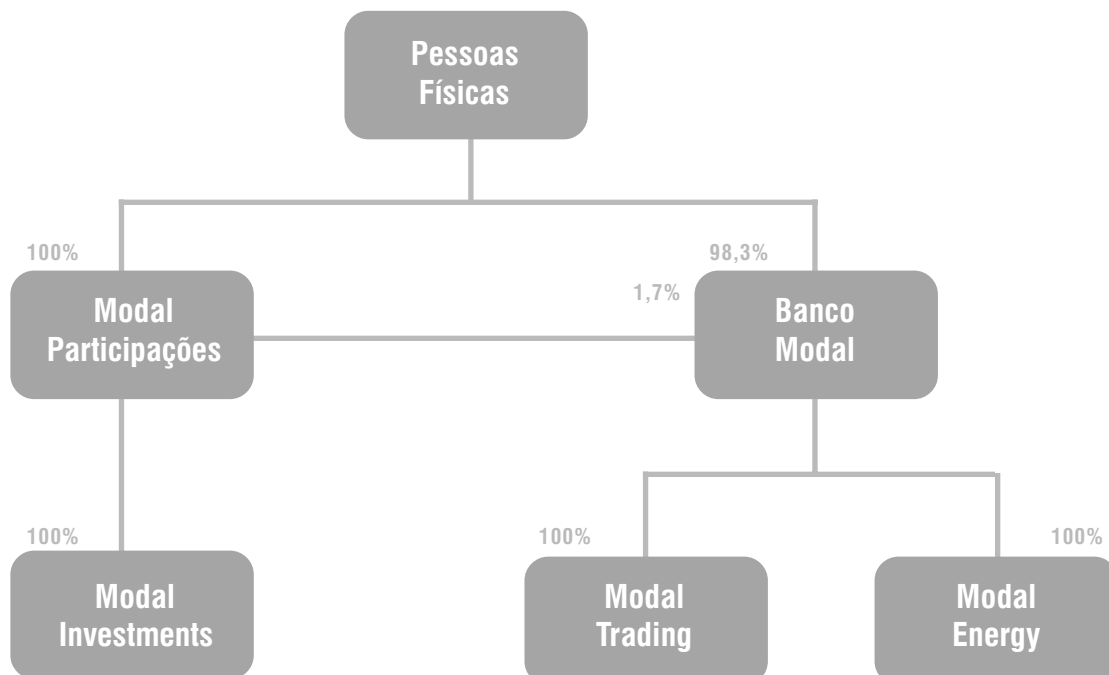


Banco Modal

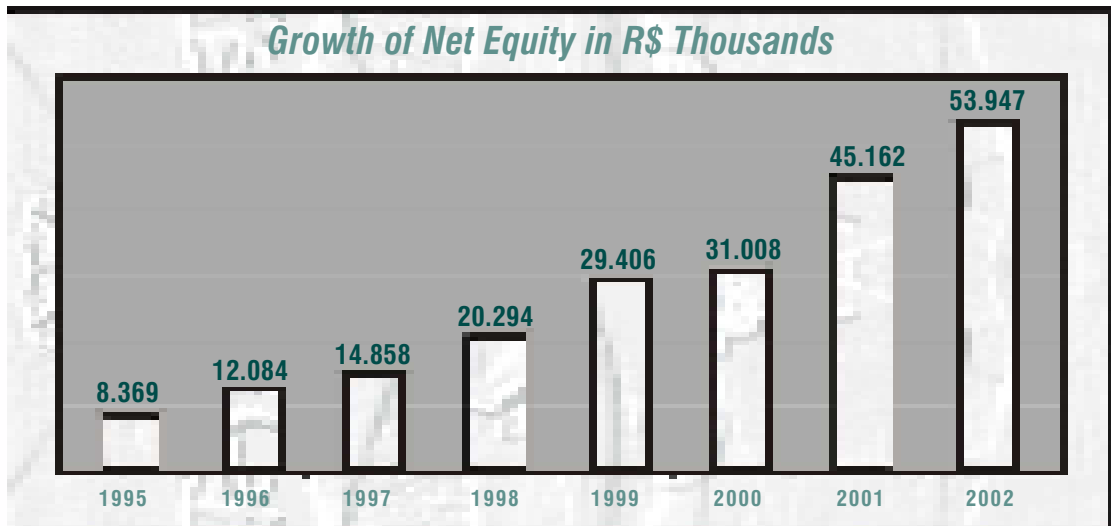
Banco Modal is a multi-purpose bank with a portfolio of investments, with headquarters in Rio de Janeiro and an office in São Paulo, focused on wholesale banking operations with corporate clients.

CHRONOLOGY

- Sept 1995 - Modal S.A. DTVM is founded
- Dec 1995 - Transformed into a commercial bank
- Jan 1996 - Banco Modal S.A. begins operations.
- Jul 1999 - Transformed into a multi-purpose bank with the portfolio of an investment bank.
- Nov 2000 - Corporate restructuring and diversification of activities.
- Mar 2003 - First entry into the international market with the issue of the Euro Medium-Term Note Program



NET EQUITY



THE 7 COMMANDMENTS

1. **Partnership:** the needs, criticism and suggestions of the client come before anything else.
2. **People:** experienced professionals and young talent, with an excellent academic background, enthusiasm and a desire to grow.
3. **Participation:** the success of the bank is the result of the individual efforts of everyone. All share in the profits.
4. **Environment:** working as a team, in an informal environment that encourages the generation of ideas, without barriers or bias.
5. **Ethics:** integrity, loyalty and confidentiality are the foundations of our in-house and outside relationships.
6. **Quality:** the most objective and simplest solution, with the least cost to the client subjected to a rigorous system of checks.
7. **Technology:** modern tools assure efficiency, security and lowest costs.



Products

BNDES

- BNDES automatic
- BNDES Exim
- Finame

GRANTING CREDIT

ISSUING OBLIGATIONS

CORPORATE FINANCE

- Strategic and Financial Advising
- Corporate restructuring
- Mergers, divisions and incorporations
- Associations and joint ventures
- Divestiture
- Raising funds from private and risk capital (private equity)

Capital market advice (underwriting)

- Public issue of stock and increasing capital
- Issue of commercial paper, debentures and shares
- Securitization operations
- Public acquisition and sale of shares of stock (block trade)
- Public offerings and repurchase of capital
- Funds management

FINANCINGS

- Working capital
- Pass-through of international funds
- Loan Syndication

FINANCING OF INVESTMENT PROJECTS

GUARANTEES

- Letters of Credit
- Surety Bonds

REAL ESTATE

- Real estate investment funds
- Structuring of funding for real estate projects
- Financial and strategic advisory services

TREASURY

- CDB
- Derivatives
- Public securities
- Hedging operations
- Swap operations

VENDOR/COMPROR





Operating Areas

1. Commercial

- › The Commercial area is responsible for customer relationship and monitoring of the entire client portfolio. From the headquarters in Rio de Janeiro and the office in São Paulo, Banco Modal has operations in the greater part of Brazil (Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Rio de Janeiro, Minas Gerais, the Federal District and Bahia), and is no longer considered to be a regional bank.
- › Despite the overall contraction in the industry, Banco Modal increased both the number of clients as well as its volume of business in 2002. The Commercial Area now has a base of 140 active clients consisting mostly of large companies. Bank officers visit more than 800 clients on a regular basis.
- › As a financial agent of the BNDES, Banco Modal almost quadrupled its pass through operations in 2002. Modal is highly ranked among the institutions that are entitled to distribute the products of the BNDES.
- › The operations performed for our customers include working capital operations, structuring lines of financing from the BNDES, assignment of receivables, currency and financial derivatives, surety bonds, CDB, hot money, interest rate swaps, settlement of INSS accounts, purchase and sale of securities, and setting up syndicated loan operations.
- › In addition to structuring its own operations, the Commercial Area also participates in the origination and distribution of Products, Corporate Finance and Middle Market Areas.
- › In 2003, Banco Modal entered the private international debt market for the first time, generating US\$ 23 million of a total of US\$ 50 million through a Euro Medium-Term Note Program. The Banco Modal will be prepared to issue tranches for third party financing.

This announcement appears as a matter of record only


M Banco Modal
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Banco Modal S.A.
(incorporated in The Federative Republic of Brazil with limited liability)

US\$23,000,000
Fixed Rate Notes

Issued Under the
US\$50,000,000
Euro Medium-Term Note Program

Arranger and Dealer
Standard Bank London Limited



2. Corporate Finance

- › Responsible for the structuring of operations with long-term maturities, such as mergers and acquisitions, issuing medium and long-term securities (debentures and commercial paper), issuing stock, taking the client public or returning to private ownership, corporate reorganizations, structuring the securitization of assets and receivables, the Corporate Finance Area obtained various mandates in strategic sectors, such as energy and sugar and alcohol.
- › The Banco Modal became the manager of a fund investing in private debt securities, with the objective of achieving long-term profitability in price indices. This fund has now amassed more than R\$ 150 million in institutional investor resources.
- › The Bank was the agent for the placement of the GP Tecnologia F.I.Q. fund and the manager of an operation of more than R\$ 500 million for the Cia. Brasileira de Distribuição (Pão de Açúcar).
- › The experience, flexibility and capability in investment and credit analysis of our team is essential in our ability to make rapid decisions and in the search for new operations.
- › The close relationship between private equities based in Brazil and overseas allows the Bank to find the best partners and strategic investors for the structured operations of its clients.

3. Middle Market

- › In 2002, the Middle Market Area performed very well, with default rates that were close to zero and its portfolio increasing to R\$ 40 million.
- › The Area has clients throughout Brazil. Our scope of operations was expanded with qualified professionals serving customers in all of the large regional centers.
- › The solutions for the small and medium company segment are put into practice after a careful analysis of the operating history and technical capabilities of the client. The idea is to provide working capital through credit, vendor operations, discounting invoices and the securitization of receivables.
- › The difference in the bank's service to its Middle Market clients continues to be its rapid response and the potential to help the client to grow, actively following all of its operations with transparency and efficiency.
- › In 2003, the Area's objective is to expand its client base, increasing its operations in strategic industries, such as suppliers of petroleum and gas, energy and telephone service providers.



4. Products

- › The Products Area is designed to search for diverse opportunities for funding and investment to meet the specific needs of each client.
- › The new products that are developed are subjected to rigorous internal examinations by committees made up of partners and outside consultants, to make sure that they are financially, fiscally and legally viable.
- › The Area identifies changes in market practice and in specific legislation, sharing this with the other areas of the Bank.

5. Trading

- › The Trading Area is responsible for the management of all of the assets and liabilities that the Bank has in its portfolio, as well as the management of the Bank's entire cash flow.
- › The Trading Area participates in both a directional and arbitrage manner in various markets. The team is therefore able to offer expertise over a wide range of financial assets.
- › Focused on maximizing the financial returns for its clients in structuring operations, the Trading Area operates under a single guiding principle both in the area of long-term operations as well as in day-to-day operations.



6. Real Estate

- Two large investments were prepared and structured in 2002: the Peninsula Paradiso, in the Barra da Tijuca area of Rio de Janeiro, and the Hype Jardins project in São Paulo.
- Registered in November 2002 with the CVM (the Brazilian Securities & Exchange Commission), the Modal Real Estate Investment Fund I will be distributed throughout 2003.
- In addition to continuing to invest in real estate projects in partnership with the best development and construction companies in the country, Banco Modal is searching for ways to structure new products for the industry as a financial option with attractive returns.

Esse anúncio é meramente informativo

Incorporação Imobiliária

Saí Amarela S.A.



R\$ 38.000.000*

O Banco Modal participou na
originação, negociação e estruturação

Estruturador

M Banco Modal



Agosto 2002

* "VGV"

Esse anúncio é meramente informativo

Incorporação Imobiliária

Saí Azul S.A.



R\$ 60.000.000*

O Banco Modal participou na
originação, negociação e estruturação

Estruturador

M Banco Modal



Julho 2002

* "VGV - FASE 1"



7. Principal Operations

Anúncio de Encerramento de Distribuição Pública de Quotas
"Este anúncio é de caráter exclusivamente informativo, não se tratando de oferta de venda de quotas"

**GP TECNOLOGIA FUNDO DE INVESTIMENTO EM QUOTAS
DE FUNDOS DE INVESTIMENTOS DE TÍTULOS
E VALORES MOBILIÁRIOS**

R\$ 6.636.680,00
(seis milhões, seiscentos e trinta e seis mil seiscentos e oitenta reais)

M Banco Modal


Banco Modal S.A.
com sede na Avenida Rio Branco, nº 89, 9º andar
Rio de Janeiro - RJ


Agente de Colocação

GP Administradora de Ativos S.A.
com sede na Avenida Paulista, nº 3.729, 7º andar
São Paulo - SP

Administrador

Comunicam que foram totalmente subscritas e integralizadas 118,43369 (cento e dezoito vírgula quatro três oito seis nove) quotas, no valor unitário de R\$11.0063,64 (onze mil e sessenta e três reais e sessenta e quatro centavos), totalizando R\$ 1.310.363,53 (um milhão, trezentos e dez mil e trezentos e sessenta e três reais e cinquenta e três centavos)


O Registro foi concedido pela CVM sob o Ofício CVM/SIN/GIC/nº1488/00, em 15.06.2000


GRUPO PÃO DE AÇÚCAR
COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

R\$ 500.000 mil

Distribuição Pública da
5ª Emissão de Debêntures
Public Offering of the 5th Bond Issues

Coordenador
Manager co-leader

M Banco Modal


R\$ 20.436 mil

Operações Estruturadas
Structured Operations

Advisor

M Banco Modal


R\$ 150.000 mil

FIF
Financial Investments Funds

Gestor
Manager

M Banco Modal


R\$ 90.182 mil

Financiamentos
Loans

M Banco Modal


R\$ 72.386 mil

BNDES

Garantidor
Guarantor

M Banco Modal


R\$ 136.105 mil

Captação
Issue

Emissor
Issuer

MBanco Modal


R\$ 11.722 mil

Créditos Estruturados
Structured Credits

Estruturador
Arranger

MBanco Modal


R\$ 38.304 mil

Fianças
Guarantees

MBanco Modal


R\$ 373.494 mil

Cessão de Direitos Creditórios
Granting of Rights of Credits

Estruturador
Arranger

MBanco Modal


R\$ 71.017 mil

Swap

Advisor

MBanco Modal


R\$ 10.483 mil

CCCB – Certificados de Cédulas
de Crédito Bancário
CCCB – Certificates of Bank Credits

Emissor
Issuer

MBanco Modal


**Venda de participação estratégica
de Concessionária Rodoviária**

M & A

Advisor

MBanco Modal




Administration / Information Technology

Operating midway between the various Areas of the Bank, clients, regulatory agencies and economic and legal consultants, the Administrative Area is a center for the distribution of legal, tax, accounting and technological information.

- › Using strict control of positions and operations, as well as providing risk analysis, the Administration assures security and trust. The Controller's and Treasurer's Offices, and the Legal Department all participate in the structuring of all of the products and all of the operations of the Bank.
- › The Banco Modal takes pride in being always on-line, and in its ability to deliver data requested by clients or the regulatory authorities ahead of time to assure greater transparency.
- › Since its start-up on 22 April 2002, the SPB (Brazil Payments System) has enjoyed excellent performance both in speed and consistency of the operations performed on the new system. All the controls and tests have proved to be effective despite the enormous technological demands, and Modal was the first bank to present the procedures required by the Central Bank.
- › The Bank's Contingency Plan is constantly being improved and up-dated to keep the Bank independent of any external contingency through a co-location contract with a technology company, recognized for its excellence in the field of data storage and management, capable of providing this kind of service.

Internal Controls

- › This area functions as a kind of "on-line auditor" through which all operations are checked in every detail (legal, accounting, fiscal).
- › Because it is integrated with all other areas of the Bank, the Internal Controls Area is an ideal place for training new employees, who are immediately given an overview of the operating areas of the Bank.





Risk

- › The Risk Area functions as a control and information distribution center about market risk and financial positions for the Board and Partners of the Bank. Currently, this control is done on-line showing not only the Value at Risk (VAR) but also financial returns, both total and for each individual positions.
- › The Bank's professional staff is technically trained, and it continuously updates its control systems with the various financial instruments that are available in the domestic and international financial market.
- › It has always been the policy of the Bank to invest in resources and technology to control information and positions and assist in the decision-making process.





Social Balance

The Vencer (Winning) Association

- › The Winning Association is a private non-profit entity maintained by some of the partners of Modal to make it possible for talented students to complete their primary education studies in public schools and with the proof of academic performance, to continue their studies at a good private school, increasing the chances for these students to take and pass the college entrance exams at public universities.
- › The financing of studies is done through student scholarships, including tuition and educational materials for everyone, as well as help in the form of bus tickets, the purchase of school uniforms where required, and tutoring sessions for the more needy students.
- › The Association has already assisted 91 students, of which 24 are studying at the university level and 10 have finished their undergraduate work.

The ARAR Project

- › This project is designed to provide additional study time for make-up work, evaluation and review for students in their final year of primary school in a public school system, preparing them for the entrance examinations for federal technical schools, military schools and other similar institutions.
- › This initiative has helped 230 young people, some of whom passed in first place for admittance into the technical schools in 2003.
- › The Bank participates in the project by donating some information processing equipment (computers) and the network installations.





The Partners

Clóvis Eduardo Álvares de Azevedo Macedo
Diniz Ferreira Baptista*
Eduardo Gomes de Almeida*
Flávio Stanger*
Gilberto Giberti*
Humberto Arthur Tupinambá Neto
José Antonio Mourão*
Maria das Graças Ripardo da S. Sampaio*
Pedro Marcelo Luzardo Aguiar*
Ramiro Lopes de Oliveira

* Members of the Executive Committee



Credits

Text

Kristina Michahelles

Translation

Dash Consultoria e Promoções Ltda.

Graphic Design

Vizuall Editoração Criativa Ltda.



Addresses

Banco Modal S.A.
e-mail: bcmodal@modal.com.br
www.modal.com.br

Rio de Janeiro
Av. Rio Branco 89/9º andar
Centro - Rio de Janeiro - Brasil - 20040-004

Tel: (55 21) 2206 1800
(55 21) 2206 1803
Fax: (55 21) 2516 4338
(55 21) 2516 4339

São Paulo
Rua Jerônimo da Veiga 45/6º andar
Itaim Bibi - São Paulo - Brasil - 04536-000

Tel: (55 11) 3089 6880
Fax: (55 11) 3089 6879