

Annual Report 2004

 Banco Modal

Index

4	Highlights
6	2004's Highlights
8	Profile
9	Organization Chart
10	Time Line
12	Principles
13	Governance
14	Letter from Executive Management
16	2005's Prospects
19	Social Responsibility

21	Business Areas
22	Corporate Banking
23	Real Estate
24	Investment Banking
25	Middle Market
28	Products
30	Trading
31	Modal Asset Management

36	Quality Management
38	Risk
40	Administration
41	Legal
41	Internal Controls and Compliance
42	Personnel Management

Highlights

Financial Statements as of December 31 (in R\$ Million)

Assets	2004	2003
Current Assets	456,804	519,410
Cash	303	438
Short term interbank deposits	–	11,008
Securities and derivative financial instruments		
financial derivatives	216,146	401,700
Interbank accounts	1,567	534
Credit Operations Private Sector	232,387	97,167
Other Receivables	6,262	8,460
Other assets	139	103
Long Term Assets	33,883	78,055
Securities and derivative financial instruments	4,557	1,226
Credit Operations Private Sector	29,251	75,767
Other Credits	75	1,062
Permanent assets	7,739	3,743
Total	498,426	601,208

Liabilities	2004	2003
Current Liabilities	301,885	453,289
Deposits	91,553	112,263
Money market repurchase agreements	122,330	233,213
Money from Acceptances and Issue of Securities	1,229	50,481
Interbank accounts	5,317	–
Repasses	58,009	24,308
Derivative financial instruments	5,135	2,991
Other obligations	18,312	30,033
Long Term Liabilities	116,159	76,670
Deposits	16,112	86
Money market repurchase agreements	71,669	–
Repasses	27,934	75,767
Derivative financial instruments	337	684
Other obligations	107	133
Shareholders' Equity	80,382	71,249
Capital stock		
Domiciled in Brazil	53,793	53,793
Increase in Capital	19,689	–
Capital Reserves	182	158
Earnings reserves	1,669	1,015
Adjustments for fair value	158	844
Retained Earnings	4,891	15,439
TOTAL	498,426	601,208

Statements of Income (in MR\$)

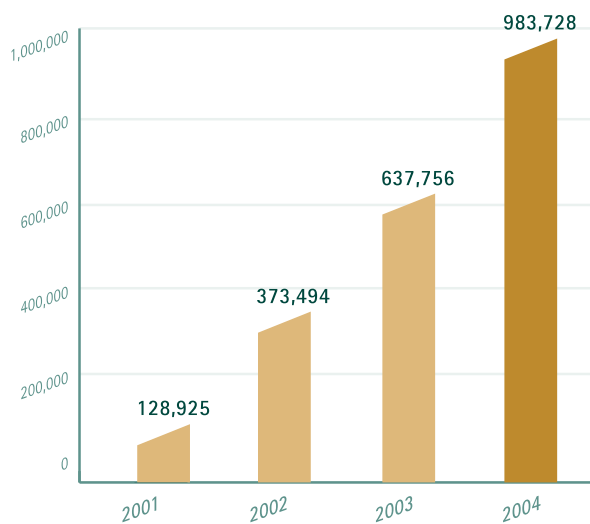
	Fiscal Year ending		
	2º sem.	on 12/31	
	2004	2004	2003
Income from Financial Operations	28,993	71,286	85,357
Credit Operations	28,755	51,134	35,754
Income from Securities Trading	18,402	33,556	47,294
Income from Derivative Financial Instruments	(18,164)	(13,405)	2,297
Compulsory investments	–	1	12
Expenses from Financial Operations	(23,202)	(55,808)	(50,562)
Funding Operations	(17,635)	(42,311)	(44,168)
Repasses	(5,136)	(12,663)	(6,255)
Provisions for Bad Debts	(431)	(834)	(139)
Gross Income from Financial Operations	5,791	15,478	34,795
Other Operating Income (Expenses)	958	3,852	5,557
Income from Services	2,461	15,709	9,272
Personnel Expenses	(4,898)	(8,578)	(5,554)
Other Administrative Expenses	(5,047)	(9,752)	(6,998)
Tax expenses	(1,382)	(3,459)	(3,414)
Income from equity in subsidiaries	81	172	246
Other Operating Income	9,828	9,861	12,058
Other operating expenses	(85)	(101)	(53)
Operating Income	6,749	19,330	40,352
Non-Operating Income	(144)	(211)	71
Income before Taxes and Social Contributions	6,605	19,119	40,423
Income Taxes and Social Contributions	(451)	(3,736)	(10,093)
Provision for Income Taxes	719	(2,362)	(8,753)
Provision for Social Contributions	229	(884)	(3,552)
Deferred Tax Assets	(1,399)	(490)	2,212
Profit Sharing	(642)	(2,288)	(3,836)
Net Income for the period	5,512	13,095	26,494
Interest on Shareholders' Equity	5,000	6,500	6,200
Net Income per Share	170,12	404,17	863,00

Highlights 2004 – R\$ `000

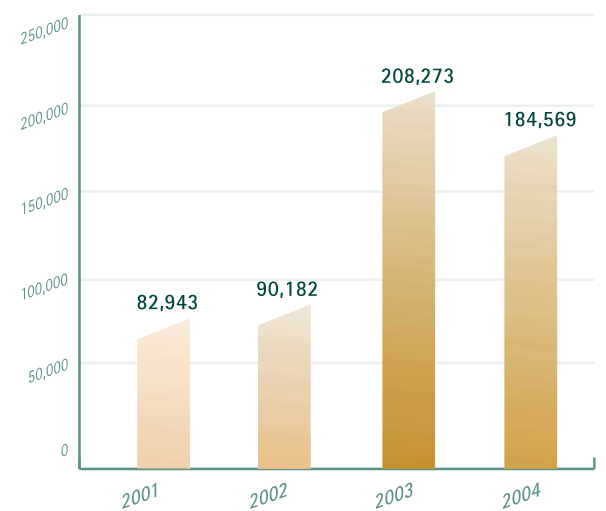
Evolution of Shareholder's Equity



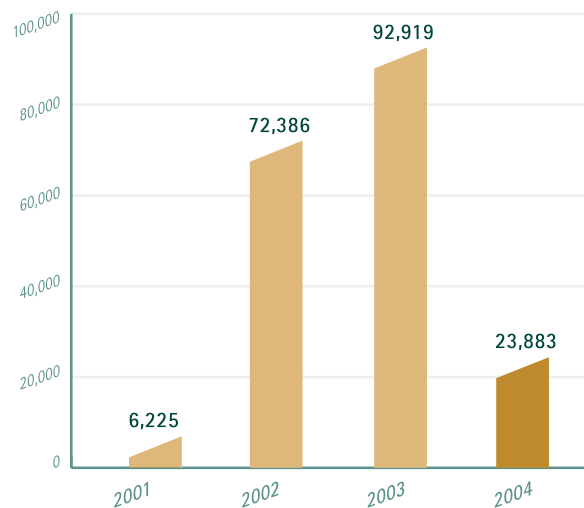
Credit Extension



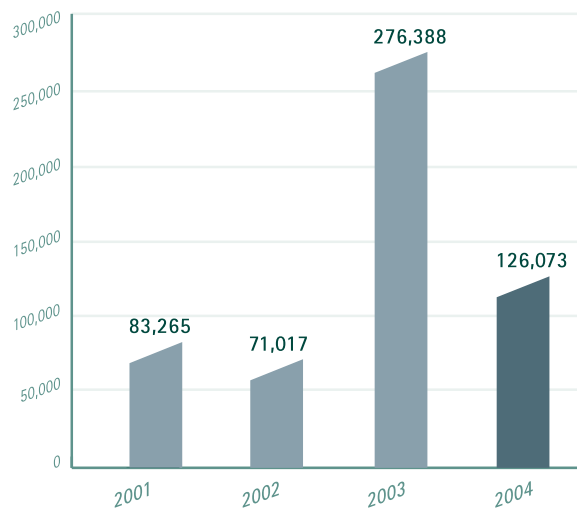
Financing



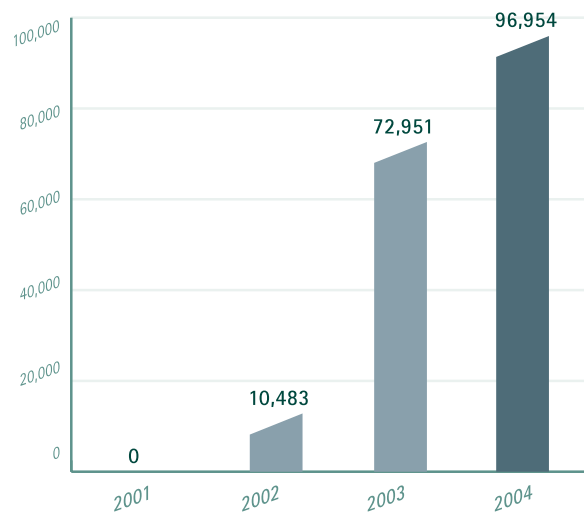
BNDES



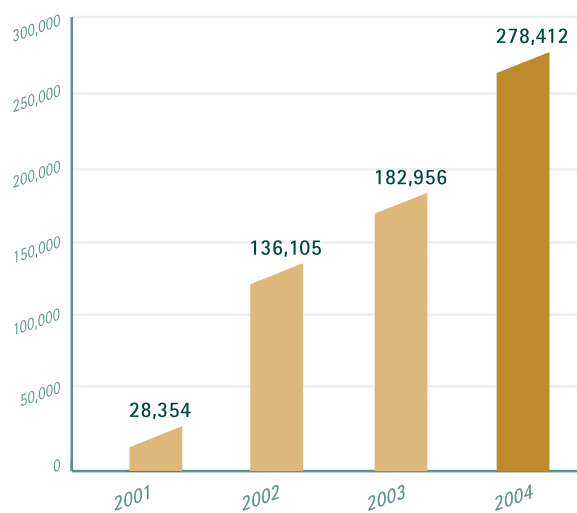
Swap



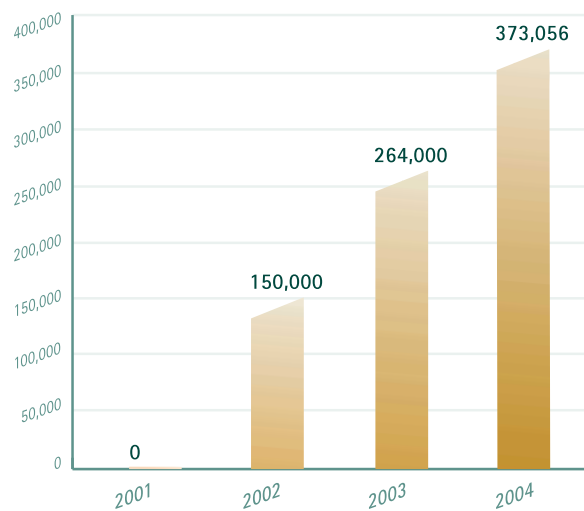
CCCB



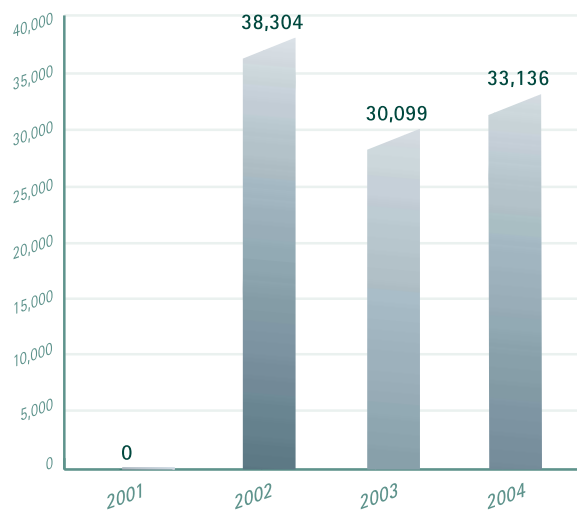
Funding



Investment Funds



Financial Guarantees



Profile

Net equity of R\$ 80 million raises Modal to the level of a mid-tier bank

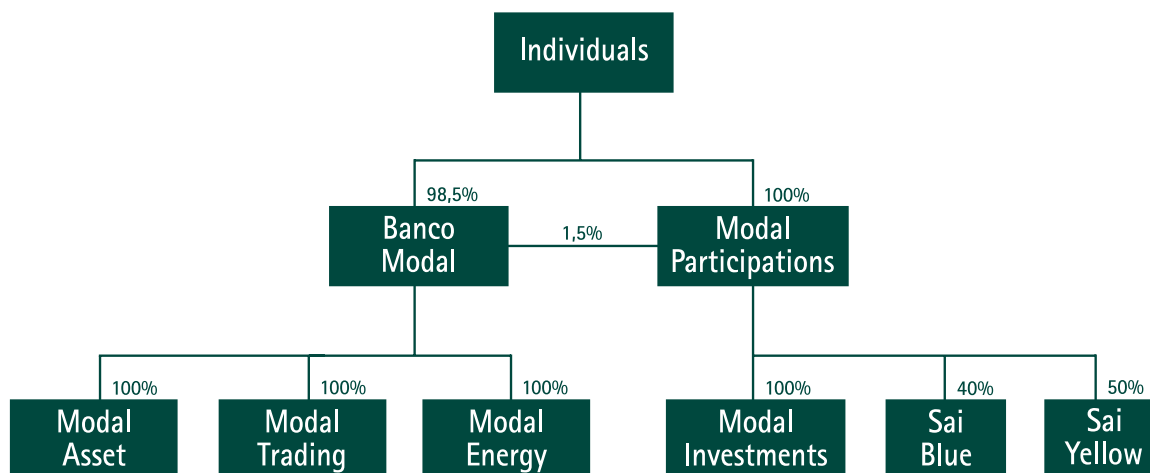
Banco Modal S.A. is a multiple bank whose investment portfolio is focused on retail operations for corporate clients. It has specialized in supplying products and services in Brazilian market niches in which the major players either are absent or where they operate on a limited basis. Its client base is made up of companies, institutions and individuals who want more rapid, and more creative, solutions than those available through large financial institutions.

Created in 1995 as a stock brokerage, it was transformed into a commercial bank in December of the same year and authorized to operate as a multiple bank in July 1999. It operates throughout Brazil from head offices in the Centro Empresarial Mourisco building in Rio de Janeiro and an office in Plaza Iguatemi, in São Paulo.

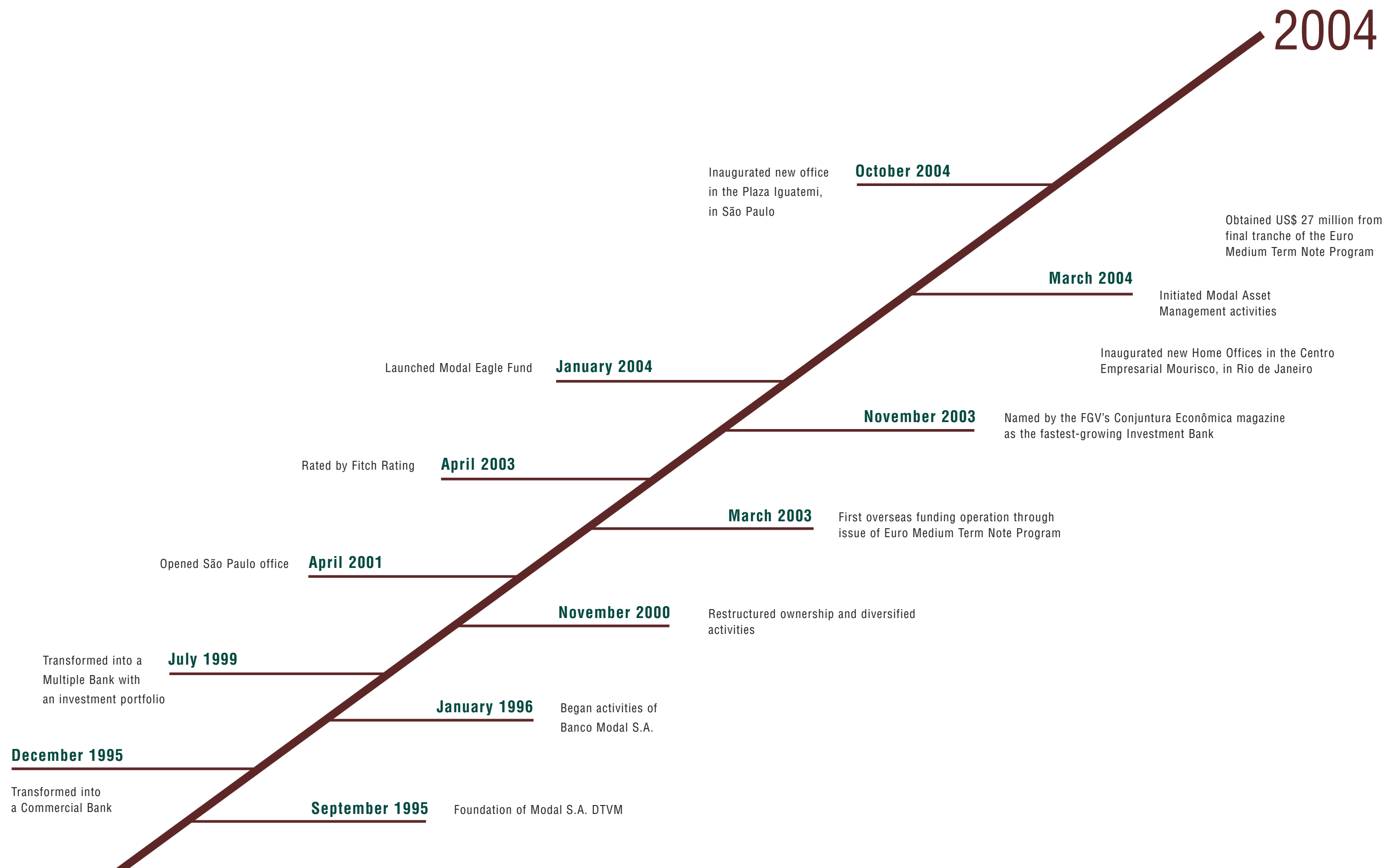
Banco Modal's team is prepared to go all-out in seeking simple, objective and lower-cost solutions in order to obtain maximum results for its clients. The bank segmented its activities in 2004 according to the sectors of the economy, instead of dividing it up into geographical areas as it had been doing previously. Among the highlights of the year was the creation of Modal Asset Management.

Modal's growth has been gradual and constant over the years of the bank's existence. It has had the benefit of the extensive experience in financial markets of its founders and the great technical expertise of its Directors and employees. After strong expansion in 2003, it ended 2004 with net equity of over R\$ 80 million, which was some 13% higher than net equity as of December 31, 2003. This result raised Modal to the level of a mid-tier bank in terms of the types of operations it conducts.

In 2005 Banco Modal will celebrate its 10th anniversary. Now with valuable experience behind it, the institution plans to capitalize on the benefits of the growth it has achieved during its first decade.



Time Line



Principles

Banco Modal's Seven Commandments

- Partnership:** client needs, comments and suggestions come before everything else;
- Quality:** the most objective, simple and least-cost solution for the client, subjected to a rigorous system of checks;
- Ethics:** integrity, loyalty and confidentiality are the bases of our internal and external relationships;
- People:** experienced professionals and young talent with excellent academic credentials, enthusiasm and the will to win;
- Technology:** modern tools to assure efficiency, security and least-cost solutions;
- Environment:** working as a team in an informal environment that encourages the generation and exchange of ideas without barriers or bias;
- Participation:** the success of the Bank is the result of the individual efforts of each of us. All employees share in the profits.

Governance

Encouragement of good practices contributes to improved management and performance

Banco Modal's relationship with the market and regulatory agencies is based upon the practice of good corporate governance: it values ethics and transparency. The institution regularly sends information about all events that might affect investment decisions to the Central Bank, the Brazilian Securities Commission and other market agents.

Through Modal Asset Management, the Bank has its own means of regular communication with investors and the market in general: the weekly newsletter "Modal Asset Conjuntura"; "Modal Asset Flash" when there are special market announcements to be made; "Modal Asset Artigos," consisting of articles for publication in newspapers and magazines; and "Carta Mensal", containing analysis and statistical data.

The Bank also sponsors events and lectures in which market announcements are analyzed to help establish a closer relationship with clients. As Banco Modal has grown, the partners have promoted changes in the Bank's governance practices that have helped to improve the management and performance in all of the segments in which it is active.

Letter from Executive Management

Last year represented yet another important stage in the consolidation of Banco Modal highlighted by our institutional growth and increased penetration into new market niches. Focus on our clients and creativity in satisfying their specific requirements will always be the hallmarks of our institution. We are beginning to reap the benefits of our constant objective of transforming clients into true partners and friends. Transparency, ethics and hard work by our commercial areas allowed us to overcome the liquidity crisis that affected the smaller banks at the end of the year after intervention in an important institution. During that difficult period, the market was able to identify the banks whose policies led to consistently solid rates of growth.

We are firmly committed to the goal of strengthening our bank, so that it depends less and less on treasury operations. We developed a number of profit centers that diversified the risk of our activities and enhanced the results. Significant investments in important control and risk areas have guaranteed the compatibility of the sustained growth of different operations.

The move of our Home Office in Rio de Janeiro and the São Paulo branch office reinforced our confidence in our own future. Besides gaining more modern and appropriate installations, we invested special attention in the preparation our greatest asset: our people.

We continued to pursue our goal of constantly improving our financial performance. We will strive to be recognized for the excellence of our services in the different segments in which we are active. The dreams we have cultivated have encouraged the ambition of rapidly achieving these goals.

In 2005, we will proceed with our strategy of enhancing our expertise in credit and services, increasing our potential in important areas such as in the Middle Market and Asset Management. After three years of consolidating our activities in the Middle Market, we now are an important player, and we are ready to do more, either with our own resources or with those of third parties.

Our own investment funds posted excellent results in 2004, especially when compared to the competition. In 2005, we will strengthen our research areas, focusing on maximizing performance in Asset Management, always within the risk standards selected by our clients.

Banco Modal continues to be very optimistic regarding Brazil's growth prospects and stability. Nevertheless, the financial market increasingly is more selective, demanding much more of its professionals and restricting opportunities for gains. We believe that we are a cut above the other players in this new and more sophisticated environment, and we will work with competence and determination to continue to deserve the trust of our partners and friends.

Prospects for 2005

The changes in macroeconomic fundamentals eased the minds of investors

In 2004 Brazil achieved the consolidation of good macroeconomic fundamentals. The remaining concerns about the commitment to the three pillars of economic policy — control of inflation, a floating exchange rate and fiscal responsibility — were finally dissipated. Other important results have also been achieved, such as the reduction in external vulnerability and renewed economic growth.

Monetary policy and the controversy about the need to maintain real interest rates at very high levels continued to occupy center stage in the debate. Supply shocks, such as the prices of important industrial commodities and oil, coupled with a resumption of stronger domestic demand, put the inflation targeting system to constant test. It should be mentioned that, despite the increase over the year of 12.4%, in the IGP-M, inflation as measured by the IPCA was 7.6% (a reduction of approximately 2% compared to 2003), which demonstrates the success of the monetary policy in avoiding the transmission of price swings from the wholesale to the retail sectors.

Inflation expectations remain unchanged

Despite the rise in the SELIC interest rate, market inflation expectations in 2005 were not particularly affected. This phenomenon has sparked discussions about the effectiveness of the basic interest rate in constraining consumption in Brazil in view of the impact of the credit channel of an economy where income is expanding. The success of the creation of new types of active operations, such as loans repaid through payroll withholding, has strongly leveraged demand in a country where there still is a small penetration of credit (about 27% of GDP).

The role of fiscal policy regained its importance and 2004 brought both good and bad news in this field. On one hand, the reinforcement of the commitment of the government to the primary surplus, the strengthening of the Real and the growth of the economy resulted in the decline of the Debt/GDP ratio to 51.8%. On the negative side were the realizations of the deterioration and the quality of the relationship between current income and expenses (both were high).

In 2004, the indicators regarding economic expansion were surprisingly positive. GDP increased by nearly 5% p.a., surpassing the projections of 3.5% made at the beginning of the year. For its part, 2005 promises continued growth despite the rate of use of installed capacity, which has reached a record high, and the beginning of a recovery of employment and wages, which make the supply-demand equation more complex.

The macroeconomic highlight of 2004 was the performance of the export sector. Brazil continued to benefit from the positive evolution of the prices of export products and an international climate noted for low risk aversion and high liquidity. Despite the appreciation of the Real, the trade balance was strongly positive, at US\$ 33.7 billion, which made it possible to have a current account surplus (1.9% of GDP) for the second year in a row. The Central Bank was successful in reducing the percent of internal debt linked to the exchange rate to about 10% and in initiating the process of accumulating reserves.

Attracting investments is the greatest challenge

In 2005, the challenge will be to attract medium and long-term investments to maintain the balance between supply and demand without generating inflationary pressures. The efforts to seek sustained growth through reforms that provide greater rationality in taxes, labor legislation and pension reforms must be a permanent part of our daily agenda. The climate — both internal (2006 elections already are expected to influence the posture of the opposition) and external (question of the twin U.S. deficits and their impact on U.S. currency and monetary policy) should not be as favorable as last year.

Banco Modal is enthusiastic about the evolution of the fundamental bases of the Brazilian economy. The clear progress of political maturity should also be noted, with a number of different currents of opinion converging in terms of their diagnoses and solutions to economic problems. The higher degree of institutional security, which makes Brazil more resistant to external shocks, is bringing greater peace of mind to local and foreign investors.

Despite the continuing need for structural reform, the improved perception regarding risks offers the possibility of achieving the development of a strong Brazilian capital market. The economic growth generates new opportunities and Banco Modal is always prepared to propose creative solutions that can add value to our clients. Even though we may still have problems, it is undeniable that the level of the discussion has changed, and Modal intends to position itself precisely in this differentiated market.

Social Responsibility

Support for 120 young people who want to win through access to knowledge

At Banco Modal, social responsibility is not a theory: it is a practice. And it has been exercised through initiatives such as the setting up and maintenance of the Winning Association, a non-profit organization created by some of the Bank's current partners even before Banco Modal was established.

The Bank also made donations of information technology equipment and furniture in 2004 to the Creche Casulo, the Brazilian Institute for Research in Development, Teaching and Public Administration (Inbrapa) and for the Committee for Democratizing Information Technology (CDI).



Young people who receive support through the Winning Association

The Winning Association

The purpose of the Winning Association, which was established in 1993, is to offer high school education to high-potential, low-income youths and prepare them for admission to a good university.

Each year, each one of five public schools in Rio de Janeiro that are part of the program designate their five best eighth grade students and send them in for evaluation. A committee made up of representatives of the Bank selects about 10 candidates who are given academic scholarships.

The students receive full assistance to complete their high school education in quality schools. The benefits package includes payments for tuition, materials, books, private tutors for support subjects and even daily transportation to school. Since its creation, the Winning Association has had 120 young people enrolled in the program.

The project's success was once again confirmed in 2004 by the college entrance examinations for the UERJ and UFRJ universities in which some of the best placed students were from the program. These results represent new possibilities not only for the students but also for their families and their communities.

Winning
Association
scholarship
winners



Business Areas

Banco Modal carried out a significant reorganization of its internal structure during 2004. The objective was to adjust its business areas to the requirements of its customers and to provide for continued growth. Among the innovations that were implemented, particularly important were the segmentation of operating activities by sectors of the economy and the creation of Modal Asset Management, which began managing Banco Modal's investment funds portfolio.

**Internal structure adjusted to Banco Modal's
new challenges**

Corporate Banking

The Bank's business with large corporations did very well in 2004

In 2004 Banco Modal had its best year ever in terms of its business with large corporations. Revenues generated by the Corporate Banking area totaled approximately R\$ 23 million, with structured financial operations — representing about 49% of overall revenues — the main highlight.

In order to confront the new challenges of the market, the Corporate Banking area was expanded in 2004 and is expected to continue to grow in 2005.

Its main purpose is to originate operations with large customers, identifying their needs and satisfying their demands for structured products, thus generating new business. The operations that stem from the initial contact by the Corporate Banking area are sent to different areas of the Bank for analysis and execution. The Money Desk is responsible for concluding the operations while the Control Desk does liquidation.

Banco Modal's overall guidelines for its business activities are being followed by the Corporate Banking area, which now organizes its work according to economic sectors rather than the geographical division of the country. This change in the work routine is expected to result in important changes, including those of the cultural nature. The institution will have more specialists dedicated to comparing companies, identifying their needs and the requirements of economic sectors.

In the 2004, Banco Modal went to the international private debt market for the second time, obtaining US\$ 27 million over two years, through the final tranche of its Euro Medium Term Note program, which gave it the right to issue a total of up to US\$ 50 million. The first tranche, of US\$ 23 million, occurred in 2003. The objective of these operations has been to open up new sources of long-term financing for the institution.

The bank maintained its portfolio of operations for on-lending financing conceded by the National Economic and Social Development Bank (BNDES).

Real Estate

A pro-active posture boosted income from real estate-based operations

Banco Modal was responsible for one of the first Mortgage Backed Securities – (MBS) issues in 2004. This initiative was confirmation of the bank's position as a vanguard institution that anticipates market opportunities. The Real Estate area posted good results during the year through private equity operations.

In 2004, funding operations were structured for four projects in São Paulo and Rio de Janeiro in partnership with leading real estate companies. The projects are conducted together with Brazil's best developers and builders.

The area works as a link between the real estate and the financial markets, offering investors new options with extremely attractive rates of return. It is capable of structuring private equity and debt operations tied to real estate financial instruments, such as the Mortgage Backed Securities – (MBS), Real Estate Receivables Certificate (CRJ) and Real Estate Letter of Credit (LCI).

The bank plans to be a stronger player in the the CCI and CRJ markets, which were recently regulated and which at the beginning of 2005 presented growing demand and, thus, good prospects for investors.

Real estate projects whose funding was structured by Banco Modal



Hype Jardins



Península Paradiso



Belle Vue



Eldorado

Investment Banking

Successful administration raised the amounts under management to more than R\$ 230 million

The Investment Banking area centralizes corporate restructuring and consulting services for incorporations, mergers and acquisitions, strategic investments and funding operations via debt or equity instruments. It obtains funds through Certificates of Bank Deposit (CDBs), Interbank Deposit Certificates (CDIs), bank guarantees and other securities. It seeks to expand its relationship with institutional clients (pension funds, asset management companies, banks and insurance companies). It develops a range of structured and differentiated solutions to optimize its response to client demands in ownership, operating and tax matters. It also conducts secondary market asset mediation.

The close relationship with private equity organizations established in Brazil and overseas — and with strategic foreign investors — gives the Bank the capability of finding the best partners for structured operations.

Modal believes the capital market is the driving force behind economic growth and wants to be close to its partners and clients in both selling both fixed and variable income operations.

The types of capital market operations it is involved with are: debentures and commercial paper; equity (block trade, taking companies public, etc.) Real Estate Receivables Certificates (CRI) securitization and Direct Credit Investment Fund (FIDC) structuring; and Bank Deposit Receipt (RDB), Mortgage Backed Securities – (MBS) and Rural Product Instruments (CPR).

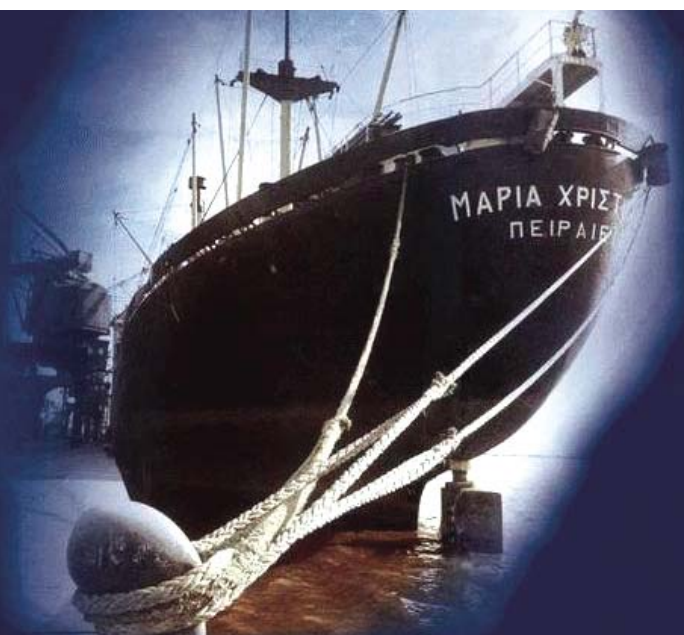
The Investment Banking area is also responsible for energy sales through Modal Energy, which is authorized by the National Electric Energy Agency (ANEEL) and also is an agent of the Wholesale Energy Market (MAE).

Middle Market

Operations with small and medium-sized companies reach R\$ 130 million

The Middle Market portfolio once again displayed the significant performance in 2004 that it had shown the year before: the total amount of operations reached R\$130 million, rising 85% compared to 2003. The number of clients also increased considerably with excellent portfolio diversification and delinquency rates close to zero.

Banco Modal has firmed its position as a leader in Middle Market operations throughout Brazil. The positive result is due mainly to its speed in analyzing the operational history and technical capacity of the client.



Banco Modal finances small and medium-sized companies that are suppliers of products and services for oil and gas activities

The Middle Market area provides financial instruments for small and medium-sized companies through extending credit, vendor operations, discounting invoices and the securitization of receivables. These operations contribute to the growth of the small and medium-sized business segment that is an important source of employment and income for the economy.

The outstanding segment is the oil and gas sector, which in the last three years has provided the Bank with about R\$2.3 billion in credit transactions for small and medium-sized businesses. The successful experience functioned as a pilot project for the Bank, which in the second semester of 2004 began to segment its activities by sectors of the economy rather than by geographic area of Brazil.

In 2004, the expansion of the client base in the Middle Market was extended to other strategic areas such as: retail (suppliers to large companies like Pão de Açúcar, Sendas and Ambev); steel and mining (suppliers to Companhia Vale do Rio Doce, Cosipa, Usiminas and CSN); and energy (suppliers to hydroelectric power plants and distributors such as Cosern, Coelce, Celpe, Chesf and Coelba).

Middle market operations are quick, simple and uncomplicated using the following structures:

Discounting Trade Notes

Discounting trade notes against companies that have advance agreements or that are part of a client's portfolio, with excellent rates and fast service is part of our service to middle market companies.

Vendor

Extension of credit through bank financing for the acquisition of products made or sold by previously registered companies.

Securitization of receivables.

Financial techniques that allow companies to use their receivables for funding under more attractive terms and interest rates.



Activities in the oil sector are supported by the Middle Market area

Products

Diverse solutions to meet client needs and generate new business.

The continued growth of the economy and the publication of new rules of regulations for the financial market should result in excellent opportunities in 2005.

The members of products area participates on financial market committees and regulatory agencies, such as the National Association of Investment Banks (ANBID), the National Association of Financial Market Institutions (ANDIMA) and the Brazilian Association of Commercial Banks (ABBC).

New practices in the market and areas in the legislation permit the creation of new products.

In addition, the area functions as an internal consultant providing support to other areas of the Bank. It has the role of identifying new practices in the market and new issues in specific legislation, informing other areas of the Bank about these changes.

The continued growth in the economy, if it continues, and the publication of new rules of regulations for the financial market should result in excellent opportunities in 2005.

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Trading

Increases in Treasury operations our position as a Bank that offers solutions.

The Trading Area, responsible for the best possible management of assets and cash flow, expanded by acquiring new senior professionals in 2004. The executives — already part of the team — were given greater limits and additional responsibilities. The purpose of the change was to encourage the team to discover and suggest customized financial operations to meet the specific needs of clients, while pursuing profit opportunities for the Bank. This way Modal hopes to maintain its focus on solutions.

2004 was, generally, a positive year. However, various external factors, such as negative political speculation, created difficulties for long term positions. In the second semester, the low demand for hedge funds and frustrated expectations regarding the continued downward path of interest rates, also contributed to the difficulties in understanding the economic situation.

The Trading Area has an agile and dynamic structure with controls that include on-line checking of risks. It performs direct and arbitrage operations in the interest rate, exchange rate and variable income markets to maximize returns for clients. It operates in its various markets with a single operational objective, in both long-term strategy and day-to-day activities.

Modal Asset Management

Marked performance during the year

Modal Asset Management made its first appearance in the competitive asset administration industry in January 2004, with the introduction of the Modal Eagle Fund. In 12 months, this aggressive derivatives fund accumulated profits of 22.22%, the equivalent to 137.8% of the CDI rate. This performance was particularly noteworthy in view of the extreme volatility in the markets during 2004.

In addition to the Eagle Fund, Modal Asset introduced other funds in 2004 that also demonstrated significant results. The Modal Fox Fund, (a moderate derivatives fund) created in February, rose 14.59% (99.1% of the CDI) by the end of December. The Modal Ibovespa Bull Fund, introduced in May, earned a 30.83% return in seven months.

The beginning of a history of results

By beginning a history of results with significant profitability of its Funds, Modal Asset has demonstrated that its distinguishing characteristic in relation to other players is more than just its name. Close to celebrating ten years in the market, Banco Modal relies on the extensive experience of its founding partners in the financial market, as well as on the technical expertise of its directors and employees. Intelligence, speed and flexibility, always under the most rigorous ethical standards, represent what makes the Bank different.

The goal of Modal Asset is to move as quickly as possible in the direction of excellence. To do this, it has a team of some ten people focused entirely on management, combining experience in the market, youthful energy and modern technology to generate the highest possible return consistent with the risk proposed for each individual portfolio.

Modal Asset introduced its site (www.modalasset.com.br) in 2004, where investors will find data about the history, management style, team, available open funds, reports, and other information.

Management

The heavy investment in macroeconomic analysis, a thorough investigation of companies and studies of the derivatives market are the underpinnings for the construction of our portfolios. Modal Asset Management uses these three areas of research — in tandem, they identify investment opportunities for our clients.

In addition to a technical bias, Modal Asset seeks the greatest possible synergy between objective analytical efforts and the market sentiment. We believe that analysis, management, risk control and compliance, qualified sales, distinctive products and management/custodial operations form a well designed and harmonious set of tools that are put to work on behalf of the investor. Decisions are taken by the following committees: Operations, which meets daily to discuss specific tactical short-term positions; Management, that each week defines strategies for the medium- and long-term allocation of assets in various portfolios; and Research, which meets monthly to discuss proposals for various areas of analysis — with the objective of presenting new ideas to management.

Distinguishing Characteristics

Modal Asset is a manager of open funds as well as closed funds that are for the exclusive use of institutional investors, individuals and corporations. Management services and custodial functions are outsourced to Mellon Brascan and Banco Itaú, respectively.

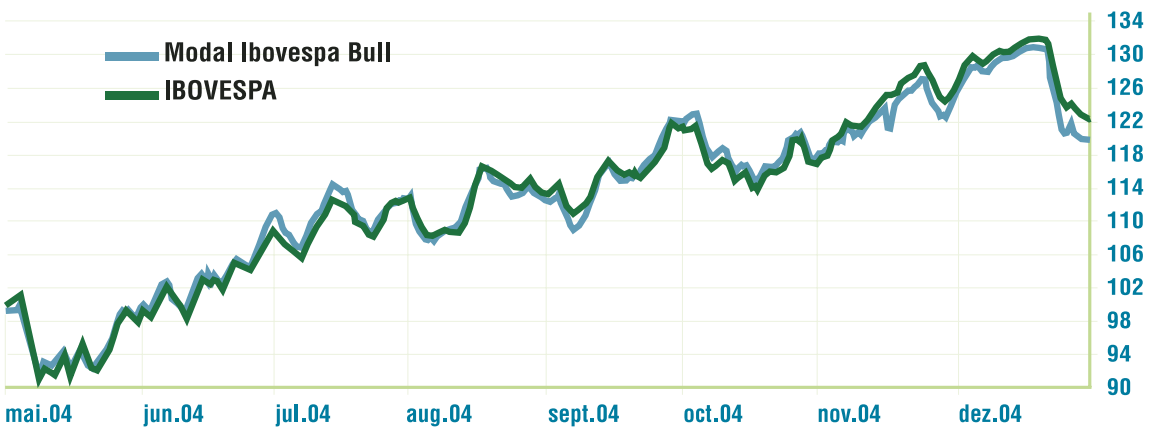
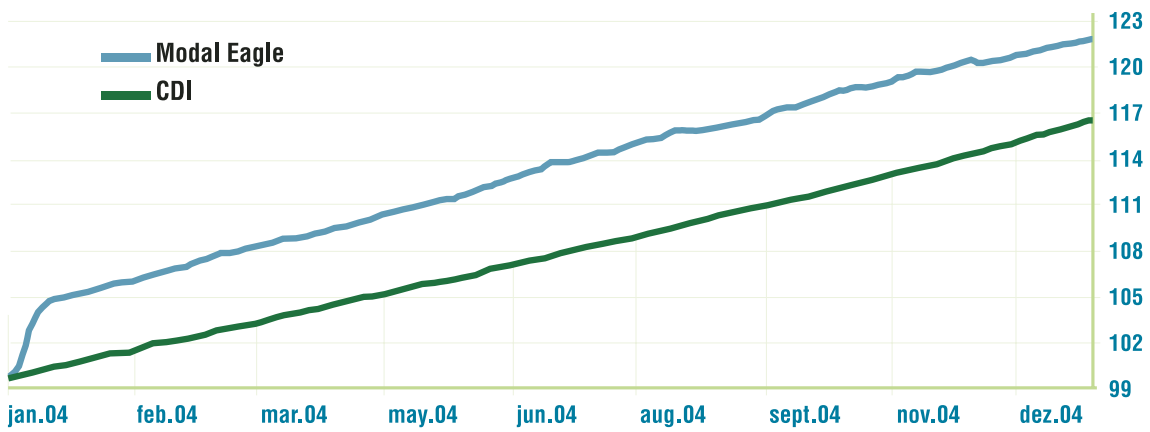
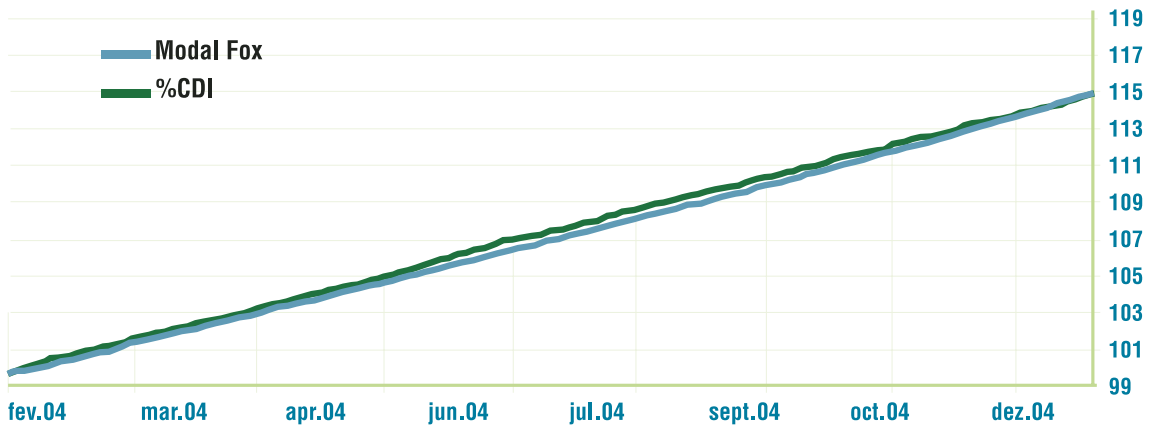
The company believes that speed and ethics are important in the reconciliation of the goals of profitability and the risk profile of each client.

An important distinguishing characteristic of Modal Asset is emphasis on the transparency of its opinions. Various reports, issued on a regular basis — Modal Asset Business Report (weekly), Modal Asset Flash and Modal Asset Articles (without a regular publishing schedule) and the Monthly letter – guarantee the investor the ability to accompany our objective analyses to help define his position. The reports are available on our Web site www.modalasset.com.br.

Agility and transparency are the principal differentials of Modal Asset Management.

Open and Closed (Exclusive) Funds:

- ◆ **Modal Eagle** – a multi-market fund with leverage and variable income. Aggressive, designed to achieve rates of return substantially higher than the CDI, operating in the securities, exchange rate and interest rate markets.
- ◆ **Modal Fox** – a multi-market fund with leverage and variable income. Moderate, designed to achieve rates of return above the CDI, securities, exchange rate and interest rate markets.
- ◆ **Modal Multimercado Institucional** – a multi-market fund with variable income. Moderate, designed to achieve rates of return above the CDI, operating in the securities, exchange rate and interest rate markets. It follows the requirements of Monetary Council Resolution CMN 3121.
- ◆ **Modal Ibovespa Bull** – variable income assets with leverage. Performance in the same direction – and could exceed – the Ibovespa.





Quality Management

Banco Modal's operations rely on the support of areas that work together to achieve the maximum use of available resources and management tools. The goal is to achieve increasingly improved qualitative results in all of its activities. The mobilization of all of the members of the organization around the concept of excellence maintains an awareness of quality.

The quest for quality is present in all of the Banco Modal team's activities.



Risk

Controls protect operations and investments

Risk management is performed by a multi-disciplinary team that monitors all processes that can generate risks in our operations, such as: market risk, credit risk, operating risk, liquidity and legal risks.

The risk area monitors all bank positions on-line, providing greater technical and statistical fundamentals for making strategic decisions. Beginning in 2004, the investment funds under management have been monitored by the area, similar to the monitoring undertaken by the Trading area.

Totally independent, the risk area reports directly to the Executive Officers. It has the autonomy to use methodology, tools and concepts defined by the institution to require compliance with limits, both legal as well as internal. The guidelines defined by the Central Bank with respect to financial exposure, indices of leverage and operations limits according the Basel Agreements are shown in detail below.

Market Risk

Banco Modal has a system for managing market risk that monitors all processes using instruments such as Value at Risk (VaR) Analysis, Stress Tests and Stop Loss Controls. Management decisions are made using instruments based on the formulation of alternative scenarios in the definition of probabilities. The criteria for the determination of the scenarios are established together with the Economics Department and the tests take into account the sensibility of the financial instruments that make up the portfolios and the effects on the immediate liquidity of the institution being studied in conjunction with the bank's projected cash flow. The analysis demands a high degree of discipline and control in the studies of the operations undertaken, preserving the integrity and independence of the processes.

Liquidity Risk

Enables Banco Modal to liquidate its operations safely and at the right time. The technical limits and positions are constantly validated, so that a comfortable cushion of liquidity is maintained.

Credit Risk

Management of credit risk is based on the evaluation of the ability to pay off the counterparts of Banco Modal according to the analysis of fundamentals of the client. Structural questions of each company are considered: performance indicators, shareholder relations, the quality of administration, structures and specific guarantees for each operation as well as sectorial and macroeconomic conditions.

Operating Risk

Control of operating risk is realized through careful analysis of the flow of information and the monitoring of operations by the areas responsible for execution. The activity takes place in close collaboration with Compliance and Internal Auditing. It also serves as a guideline for investment in structures that make possible the continuous improvement of controls to mitigate the risks occurring as a result of failures in internal processes, external events, people and systems.

Administration

Infrastructure to sustain the Bank's growth

The administrative areas of Banco Modal have the necessary structure to support operating activities. They work according to the quality parameters established by the institution as well as the requirements of the Central Bank and other regulatory agencies. The move of the Bank's headquarters office in Rio de Janeiro, and the move to the new São Paulo office — both of which took place in 2004 — were designed to meet the needs generated by the rapid growth of recent years and will serve as bases for another decade of growth.

The Bank is also preparing itself for replacement of the operating system platform, to be implemented beginning in 2005. With fully integrated systems, the institution maintains its recognized speed and agility ensure the integrity of the data and the high quality of information.

With its infrastructure renewed, the Bank will be able to process a growing amount of information. The Centers for Documentation and Registration were expanded to be able to continue preserving the history of all operations realized and to meet legal and compliance requirements.

Rio de Janeiro



São Paulo



Legal

The Legal Department was revamped and expanded in 2004 in order to be able to continue increasingly become a profit center.

Because of the size of the bank, its focus and activities in market niches, the Legal Department has been participating more actively in business. It prepares contracts, analyzes situations and acts directly with clients.

Internal Controls and Compliance

The system of internal controls and compliance is under the guidance and supervision of the partners. It is an important management tool that ensures the rigorous adherence to legal standards, internal regulations and operating guidelines and ethics, while minimizing the risk of losses. The quality is established through rules of control, flows, methodology and monitoring, with the objective of guaranteeing the security of the system and of products, with less risk and more transparency.

The Controller, the Treasury and the Legal Department participate in structuring all of the Bank's products and operations in order to help in the search for solutions to clients' needs. The Internal Auditors assure that the standards of internal control are executed through projects in various areas of the institution and in proposing action plans for the resolution of occasional problems.

Banco Modal has a contingency plan set up off site to meet the specific requirements of the Brazilian Payment System (SPB). The Administration is further responsible for the institutional relationship with regulatory agencies such as the Central Bank and the Securities Exchange Commission.

Personnel Management

A team of 125 qualified, creative and agile professionals.

Banco Modal's main asset is its team of professionals: both those with vast market experience as well as young entrepreneurs. The total payroll is 125 persons - including partners, directors and interns — all dedicated to the common goal of managing a lean, creative, agile and ethical Bank.

In addition to being responsible for strategic decisions, the partners remain on the front line of operations. They are obliged to exercise different operational functions and use their experience to provide greater assurance and precision to decisions, transmitting their knowledge to the team.

The departments are administered autonomously, always conforming to the standards fixed by the Operating Committee, which provides greater speed of adjustment in adapting to the challenges presented by the market.

It is part of the organization's culture to invest in the education, training and motivation of the team. Since 1998, the institution has given scholarships to finance post-graduate courses for outstanding employees. The number of scholarships was doubled from 2003 to 2004, when six persons were granted the benefit.

Banco Modal prepares human capital by training professionals selected for entry into the institution. In the beginning they experience the culture of the organization and subsequently are trained to operate in different areas of the Bank.

Young people also enter the bank through a formal internship program with institutions such as the IME, UERJ, UFRJ, CEFET, PUC-RJ and IBMEC. The career opportunities that are offered give everybody the same chance for professional advancement and to become partners in the organization.

The policy of profit sharing, which drives operating efficiency, is transparent and based on merit.

Credits

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