

**Rating Action: Banco Modal S.A.**

**Moody's Assigns First-Time Ratings to Banco Modal**

---

New York, January 29, 2008 -- Moody's Investors Service assigned a bank financial strength rating of D- (D minus) to Banco Modal S.A. (Modal). Moody's also assigned long- and short-term foreign- and local-currency deposit ratings of Ba3 and Not Prime, as well as long- and short-term Brazilian national scale deposit ratings of A3.br and BR-2. The outlooks on all of these ratings are stable.

Moody's D- bank financial strength rating for Modal derives from its modest franchise value and market positioning as a wholesale bank, and also from the relevant participation of trading revenues in the earning mix, which limits the generation of recurrent earnings. The rating is also challenged by the lack of diversification in Modal's funding base, as well as by the bank's reasonably concentrated (although predominantly short-term) loan portfolio when compared with its domestic midsize bank peers'.

Moreover, the rating might suffer from the deterioration of margins as a result of increased competition in commercial lending and in the structuring of asset-backed securities, which are the bank's main business targets. Additionally, margins could be compressed by increased funding costs if the market's liquidity dries up.

On the other hand, the rating benefits from Modal's lean operating structure -- a function of its niche business profile -- and from its partnership arrangement. In that regard, Modal's management is closely involved in the bank's business strategy and execution, and is challenged to maintain adequate risk discipline and controls. Moody's added that ongoing expansion initiatives, which involve the asset management and middle-corporate lending units, are expected to diversify the bank's funding structure by attracting more institutional investors and fund managers to its depositors base.

The intrinsically volatile, largely trading-based, nature of the bank's earnings results in profitability and efficiency indicators that show some fluctuation. The rating agency noted that Modal's ability to enhance recurring earning-generation businesses, as means to protect its profitability, could eventually be a positive factor for its ratings.

Moody's Ba3 global local-currency deposit rating is based on Modal's very modest participation in the Brazilian deposits market. Moody's, therefore, assesses no probability of systemic support to the bank in the event of stress that could affect its ability to repay local currency deposits. Moreover, the bank does not enjoy support from a parent company or economic group because it is organized into a partnership, controlled by its three founders. Therefore, the local currency rating of Ba3 is mapped directly from Modal's bank financial strength rating of D-.

Established in 1995, Modal is headquartered in Rio de Janeiro, Brazil. As of December 2007, the bank had total assets of approximately R\$708 million (US\$398 million) and equity of R\$144 million (US\$81 million).

The following ratings were assigned to Banco Modal S.A.:

Bank Financial Strength Rating: D-, with stable outlook.

Global Local-Currency Rating: Ba3 long-term local-currency deposit rating and Not Prime short-term local-currency deposit rating, with stable outlook.

Foreign Currency Deposit Rating: Ba3 long-term foreign-currency deposit rating, and Not Prime, with stable outlook.

Brazilian National Scale Deposit Ratings: A3.br long-term deposit rating, and BR-2 short-term deposit rating; with stable outlook.

JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Sao Paulo  
Ceres Lisboa  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's America Latina Ltda.  
55-11-3043-7300

---

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."