

Rating Action: Moody's upgrades Banco Modal's national scale rating to A2.br

Global Credit Research - 28 May 2010

New York, May 28, 2010 -- Moody's Investors Service upgraded Banco Modal S.A.'s (Modal) Brazilian national scale long-term deposit rating to A2.br, from A3.br. In addition, Moody's affirmed Modal's bank financial strength rating at D-. The rating agency also affirmed Modal's global local currency and foreign currency deposit ratings at Ba3 and Not Prime, for long- and short-term, respectively, and the Brazilian national scale long-term deposit rating at BR-2. All ratings have a stable outlook.

The upgrade of Modal's national scale deposit rating to A2.br from A3.br indicates that the bank is well positioned to benefit from the expected growth of investment banking activities as it leverages management's expertise in the segment, Moody's said.

In affirming Modal's D- BFSR, Moody's noted that the relevant credit factors assessed in rating the bank -- more specifically, earnings recurrence, funding and liquidity management, and capitalization -- still indicates a modest franchise, mostly reliant on non-recurring trading-based earnings. Modal's net income showed significant fluctuation in 2009, when activities in the investment banking segment slowed down significantly and tightened domestic liquidity drove overall funding costs high.

Moody's added that the bank's performance also reflects an undiversified funding structure, which is predominantly wholesale-based, with a sizable share of deposits sourced from the deposit insurance corporation. Nevertheless, Moody's recognizes that management has prudently maintained an adequate on-balance cash cushion for potential liquidity needs of 1.2 times the bank's equity.

Moody's highlighted that it will monitor Modal's capital adequacy as management focuses on expanding credit operations. The quality of the bank's loan book is intrinsically good as a result of the highly-collateralized, short-term nature of its loans; nevertheless, an increase in loan volume is prone to demand additional capital allocation against credit risk, hence, potentially compressing Modal's capital ratio.

Moody's took its last rating action on Modal on January 29, 2008, when Moody's Investors Service assigned a D- bank financial strength rating to Modal. On that same date, Moody's assigned global local currency and foreign currency deposit ratings of Ba3 and Not Prime as well as Brazilian national scale ratings of A3.br and BR-2.

The principal methodologies used in rating Modal were "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Banco Modal S.A. is headquartered in Rio de Janeiro, Brazil. As of December 2009, the bank had total assets of approximately R\$960 million (US\$552 million) and equity of R\$202.5 million (US\$116 million).

The following rating of Banco Modal was upgraded:

Long-term Brazilian national scale deposit rating: to A2.br from A3.br, with stable outlook

The following ratings of Banco Modal were affirmed:

Bank financial strength rating: D-, with stable outlook

Global local-currency deposit ratings: Ba3 and Not Prime, with stable outlook

Foreign-currency deposit ratings: Ba3 and Not Prime, with stable outlook

Short-term Brazilian national scale deposit rating: BR-2, with stable outlook

New York
Alexandre Albuquerque
Analyst
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
M. Celina Vansetti
Senior Vice President
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

(together, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, 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, all information contained herein is provided "AS IS" without warranty of any kind. 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 ratings, financial reporting analysis, projections, and other 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. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. 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.

MIS, a wholly-owned credit rating agency subsidiary of MOODY'S Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and 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 at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this Document is by MOODY'S affiliate MOODY'S Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to wholesale clients (within the meaning of section 761G of the Corporations Act 2001). By continuing to access this Document from within Australia, you represent to MOODY'S and its affiliates that you are, or are accessing the Document as a representative of, a wholesale client and that neither you nor the entity you represent will directly or indirectly disseminate this Document or its contents to retail clients (within the meaning of section 761G of the Corporations Act 2001).