



**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](http://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

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