



Moody's Investors Service

Rating Action: **Moody's: stable outlook on Banco do Brasil's Hybrid Subordinated Instruments**

Global Credit Research - 18 Dec 2009

New York, December 18, 2009 -- Moody's Investors Service changed the outlook to stable from positive on the Baa2 foreign currency junior subordinated debt ratings of Banco do Brasil S.A. (BB)'s 2006 and 2009 perpetual non-cumulative junior subordinated notes, both issued through BB Grand Cayman Branch, following a change to its rating methodology for this type of instruments. Other ratings assigned to the bank remain unchanged.

The outlook change on BB's junior subordinated notes follows Moody's initiative to review bank hybrids and subordinated debt on a global basis under the revised methodology for bank hybrid instruments published in November 2009. For details please refer to "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", dated November 16, 2009.

In analyzing the key features of both the Tier 2 capital notes issued in 2006 and the Tier 1-eligible notes issued in 2009 by BB through its Grand Cayman Branch under the revised methodology, Moody's has positioned the rating three notches below BB's Adjusted Baseline Credit Assessment of A2, which results in a Baa2 debt rating for the junior subordinated notes. This implies a foreign currency debt rating no longer constrained by Brazil's Baa2 foreign currency bond ceiling and thus, the outlook should be changed to stable from positive. Previously, Moody's had applied one notch for subordination from BB's supported deposit rating of A2; at that level, the ratings were constrained by Brazil's country ceiling which has a positive outlook, and thus both carried a positive outlook.

Moody's noted also that the foreign currency debt ratings assigned to the senior unsecured notes issued by BB through its Grand Cayman Branch remain unchanged with positive outlook, as these ratings continue constrained by Brazil's ceiling.

The key features taken into account for the three notch differential were the optional coupon skip mechanisms, which in these cases are non-cumulative, if the bank is not in compliance with applicable capital adequacy and operational limit requirements, and in the event of common dividend suspension. The securities represent the bank's most junior subordinated debt and rank junior to senior creditors and pari-passu among the outstanding junior subordinated debt and other preferred securities. The securities could form a loss-absorbing cushion for senior creditors through a principal write-down in the event the bank's accumulated profits, profit reserves (including legal reserves) and capital reserves are exhausted. However, the holders' claim in liquidation is on the full amount.

"Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" is available on moodys.com. In conjunction with the new methodology, the rating agency has also published a Frequently Asked Questions to address some of the issues that were raised during the comment period.

The last rating action on BB Grand Cayman Branch was on October 19, 2009 when Moody's assigned the foreign currency debt rating to its perpetual non-cumulative junior subordinated notes.

The following rating actions were taken:

Long term Baa2 foreign currency junior subordinated debt rating assigned to US\$500,000,000 perpetual non-cumulative junior subordinated note issued in January 2006 by BB through its Grand Cayman Branch (CUSIP: 05958AAB4 for 144A and G07402AF0 for Reg S): Outlook changed to Stable from Positive

Long term Baa2 foreign currency junior subordinated debt rating assigned to US\$1,500,000,000 perpetual non-cumulative junior subordinated note issued in October 2009 by BB through its Grand Cayman Branch (CUSIP: 05959LAA1 for 144A and P3772WAA0 for Reg S): Outlook changed to Stable from Positive

New York
M. Celina Vansetti
Senior Vice President
Financial Institutions Group

Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Sao Paulo
Ceres Lisboa
VP - Senior Credit Officer
Financial Institutions Group
Moody's America Latina Ltda.
55-11-3043-7300



Moody's Investors Service

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