

Rating Action: Moody's changes to stable outlook Banco Cruzeiro do Sul's ratings

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New York, June 02, 2010 -- Moody's Investors Service changed to stable, from negative, the outlook on all ratings assigned to Banco Cruzeiro do Sul S.A. (BCSul). No changes were made to the following ratings: bank financial strength rating of D; global local currency and foreign currency deposit ratings of Ba2 and Not Prime, in the long- and short-term, respectively; long-term foreign currency senior unsecured debt rating of Ba2; long-term foreign currency subordinated debt rating of Ba3; and Brazilian national scale deposit ratings of A1.br and BR-1, in the long- and short-term, respectively.

Moody's noted that the stable outlook acknowledges BCSul's ability to navigate a liquidity downturn, which it achieved mainly by selling portions of its highly-marketable loan portfolio to manage immediate liquidity needs. Such funding alternative ensured that loan origination could be maintained, although core profitability suffered with much higher funding costs. BCSul's consolidated position in the payroll lending business, where it holds an estimated 6.1% market share, has however, been largely preserved, as indicated by growing number of active borrowers it continues to attract. Moody's said that BCSul should be able to defend its market position as competition intensifies, considering that it continues to access new clients and to leverage its origination capacity via credit sales.

BCSul's key challenges include: (1) the bank's intrinsic liquidity management risk, as reflected in its reliance on short-term funding to finance longer-duration loan portfolio; (2) the sensitiveness of its financial margins to interest rates fluctuations and swings in funding costs; and (3) the growing competitive pressures on in its core business.

With respect to BCSul's capitalization, Moody's notes that capital could be rapidly consumed as the bank retains increasing loan volumes on its balance sheet aiming to enhance revenue generation.

The last rating action on BCSul was on December 10, 2008, when Moody's downgraded the bank's bank financial strength rating to D from D+, and long-term local-currency debt and bank deposit ratings to Ba2 from Ba1. The outlook was changed to negative.

The principal methodologies used in rating Banco Cruzeiro do Sul S.A. was Moody's "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology," published in February and March 2007 and available 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.

BCSul is headquartered in São Paulo, Brazil, and it had total assets of R\$7,678 million (US\$4,263 million) and total equity of R\$1,093 million (US\$604 million) as of March 30, 2010.

The following ratings assigned to Banco Cruzeiro do Sul had its outlook changed to stable from negative:

Long term global local currency deposit rating -- Ba2

Long term foreign currency deposit rating -- Ba2

Long term Brazilian national scale deposit rating -- A1.br

Long term foreign currency senior unsecured debt rating -- Ba2

Long term foreign currency subordinated debt rating -- Ba3

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