

Rating Action: Moody's assigns ratings to Banco do Nordeste do Brasil

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New York, April 20, 2010 -- Moody's Investors Service assigned a bank financial strength rating (BFSR) of D to Banco do Nordeste do Brasil S.A. (BNB), as well as local-currency deposit ratings of Baa2 and Prime-2, long and short-term, respectively. At the same time, the rating agency assigned BNB long and short-term foreign currency deposit ratings of Baa3 and Prime-3 and national scale ratings in Brazil of Aaa.br and BR-1. All the ratings have stable outlooks, except for the Baa3 foreign currency deposit rating, which carries a positive outlook, in line with the outlook on the sovereign ceilings for Brazil.

Moody's noted that BNB's D unsupported BFSR reflects its important regional franchise and broad retail-bank footprint, as well as its role as a development arm of the federal government for the Northeastern region of Brazil. The rating also acknowledges BNB's constitutional mandate to manage the resources of the FNE (Fundo Constitucional de Financiamento do Nordeste), an important tool to promote the region's economic and social development, and one that provides the bank with stable and recurring fee-based revenues. Also of note is the bank's high liquidity level, which benefits from the investment of FNE's unallocated resources. The bank's access to stable, granular, and low-cost funding in the region supports the growing credit penetration of local consumers and SMEs, which are BNB's core market segments.

Conversely, the rating is constrained by BNB's tighter capitalization relative to privately owned commercial banks. The robust credit growth reported over the past two years -- in part reflecting the bank's role in assisting the government's recent counter-cyclical economic measures -- together with pressures from an aggressive dividend-distribution policy, has largely consumed its excess capital. Moody's views such dynamics as potentially constraining the bank's future loan growth plans. We note that BNB's leverage capability has been partially restored through the issuance of subordinated debt placed with FNE, which however, implies a lower quality capital.

Also constraining the rating is BNB's limited corporate governance structure -- a challenge that is common to other government-owned institutions—and which likely exposes the bank to potential political interference. In addition, the fast growth of the bank's loan book may well mask asset quality deterioration, thus challenging management as the credit portfolio grows under competitive market conditions.

The bank's Baa2 global local-currency (GLC) deposit rating derives from a baseline credit assessment of Ba2, a translation from the D BFSR, which receives three notches of uplift reflecting Moody's assessment of a high probability of systemic support coming from the federal government. This suggests BNB's important position in the regional economy as well as its role in providing long-term financing in support of public policy. Moody's also takes into account formal guarantees provided by the National Treasury to some of BNB's obligations.

The principal methodologies used in rating BNB were "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology". These methodologies can be found on www.moody's.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.

The last rating action on Banco do Nordeste do Brasil was on August 5, 2005, when Moody's withdrew all ratings for business reasons.

Banco do Nordeste do Brasil is headquartered in Fortaleza, Brazil. As of December 2009, BNB had total assets of R\$19.1 billion (US\$11.0 billion) and shareholders' equity of R\$2.1 billion (US\$1.2 billion).

The following ratings were assigned to Banco do Nordeste do Brasil S.A.:

Bank financial strength rating: D, stable outlook

Long-term global local-currency deposit rating: Baa2, stable outlook

Short-term global local-currency deposit rating: Prime-2

Long-term foreign-currency deposit rating: Baa3, positive outlook

Short-term foreign-currency deposit rating: Prime-3

Long-term Brazilian national scale deposit ratings: Aaa.br, stable outlook

Short-term Brazilian national scale deposit ratings: BR-1

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