

Rating Action: Moody's assigns first-time ratings to Nossa Caixa Desenvolvimento

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New York, April 12, 2010 -- Moody's Investors Service assigned long- and short-term local currency issuer ratings of Ba3 and Not Prime, respectively, to Nossa Caixa Desenvolvimento -- Agência de Fomento do Estado de São Paulo S.A. (NCD), the government development agency owned by the State of São Paulo. In addition, Moody's assigned to NCD foreign currency issuer ratings of Ba3 and Not Prime, long and short-term, respectively, as well as national scale ratings of A3.br and BR-2, long and short-term. The outlook is stable for all ratings.

According to Moody's, NCD's issuer rating is determined by the following: 1) the institution's baseline credit assessment (BCA) of 15 (on a scale of 1 to 21, where 1 represents the lowest credit risk), which maps to a B2 in the global rating scale; and 2) the assessment of high support and dependence probability from its shareholder, the state of São Paulo (rated by Moody's at Ba2; outlook stable). Moody's noted that the high likelihood of support from the government of São Paulo -- which has subscribed sizable capital resources to the agency -- lifts by two notches the stand-alone credit rating of NCD.

In assigning its ratings, Moody's took into account the essentially start-up profile of NCD, which is still in the process of structuring its operations, its risk management functions and staff, and has, therefore, a very limited track record. The agency was established in March 2009 with a mission of providing medium and long-term financing to state-based small and medium enterprises, in line with the state government's development and economic policies. Because the SME segment accounts for a relevant portion of the state economy, NCD is confident it can provide support to economic sectors, despite facing fierce competition by well-established commercial banks.

Moody's noted that NCD's lack of financial history is somewhat compensated by a sizable capital base that should adequately support its growth plans; this cushion is particularly critical in its initial phase of operations, when recurring earnings generation is likely to be modest. To ensure adequate asset quality in its developing loan book, management intends to prioritize secured lending, and adhere to disciplined risk management, aided by its knowledge of the local economy.

We acknowledge that the rating is constrained by the relative uncertainty related to the execution of NCD' strategic plan, as well as to management's ability to deploy its capital in the origination of productive, healthy assets. Profitability is not expected to be a rating driver for this public institution, but management's demonstrated capacity to establish revenues diversification and recurrence would clearly have positive credit implications for the ratings.

We note that NCD's operations and strategies are closely linked to the state government's interest and policies, which may expose it to political interference. By the same token, we expect that any potential capital needs would likely be met by the shareholder, and for that reason, we assess the probability of support from the state government to be high. It is worth mentioning that NCD is regulated by banking supervision and has been currently engaged in implementing governance practices.

The principal methodologies used in rating NCD were Moody's "Government Related Issuers: May 2007 Update" and "The Application of JDA to Government-Related Issuers" published in April 2005. In this case, we also used "Moody's Approach to Rating Banks and Finance Companies with Limited Financial History". These documents are available 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.

Nossa Caixa Desenvolvimento is headquartered in São Paulo, Brazil. As of December 31, 2009, the development entity had total assets of R\$413.7 million (US\$237.6 million) and equity of R\$405.5 million (US\$203.8 million).

The following ratings were assigned to Nossa Caixa Desenvolvimento S.A. -- Agência de Fomento do Estado de São Paulo:

Long-term local- currency issuer rating: Ba3, stable

Short-term local- currency issuer rating: Not Prime

Long-term foreign currency issuer rating: Ba3, stable

Short-term foreign currency issuer rating: Not Prime

Long-term national scale issuer rating in Brazil: A3.br, stable

Short-term national scale issuer rating in Brazil: BR-2

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