



Moody's Investors Service

Rating Action: Moody's: positive outlook on Banco Panamericano's deposit and debt ratings; BFSR affirmed

Global Credit Research - 03 Dec 2009

New York, December 03, 2009 -- Moody's Investors Service changed the outlook to positive from stable on Banco Panamericano's Ba2 global local and foreign currency deposit ratings, as well as on its foreign currency debt ratings of Ba2 for senior unsecured notes and Ba3 for senior subordinated notes. The positive outlook was also assigned to Panamericano's A1.br long-term Brazilian national scale rating. At the same time, Moody's affirmed the bank's financial strength rating (BFSR) at D, while all short-term ratings remained unchanged. The ratings of Caixa Econômica Federal S.A. (Caixa) -- BFSR of D+, deposits rating of A3 -- remain unchanged.

The rating actions are in response to the announcement that Caixa is acquiring 35.54% of Panamericano's total shares through its integral subsidiary Caixa Participações S.A. (CaixaPar). The deal is valued at R\$739.27 million, and will allow CaixaPar to acquire 49% of Panamericano's common shares and 20.69% of preferred shares. The completion of the deal is contingent upon regulatory approval.

Moody's said that the outlook change was triggered by the potential benefit this acquisition may bring to Panamericano's funding and liquidity management, thus creating conditions for further expansion of the banks' loan portfolio. Moody's noted that the deal does not contemplate a formal funding agreement; nevertheless, CaixaPar's equity participation may improve Panamericano's access to more favorable funding conditions.

In affirming the D BFSR for Panamericano, Moody's acknowledges management's ability to navigate through the stressful liquidity and credit environment of past months by reducing loan origination and by monetizing higher quality credits in its balance sheet. These measures, together with liquidity support provided to the market by the central bank and the deposit insurance, helped restore funding conditions and allowed the bank to gradually resume credit growth in the 3Q09.

Panamericano's asset quality, however, has shown deterioration, and we expect further need for provisioning as loans season. The bank's core business -- consumer finance to low income segments -- is inherently riskier and credit spreads tend to offset potential losses. However, in light of much higher funding and credit costs over the last quarters, Panamericano's profitability has been affected. A scenario of low interest rate and rising competition in its segment could continue to pressure margins, and result in increasing risk appetite for loan growth. Credit quality, therefore, remains a key risk factor, now that liquidity concerns appear to have been addressed.

The principal methodologies used in rating Banco Panamericano 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.

The last rating action on Panamericano was on October 26, 2009, when Moody's assigned foreign currency debt rating to its US\$200 million senior unsecured notes due in 2012.

Banco Panamericano S.A is headquartered in São Paulo and had unconsolidated assets of R\$7.7 billion (US\$ 4.29 billion) in September 2009. Caixa Econômica Federal S.A. is headquartered in Brasília, and had consolidated total assets of R\$341.9 billion (US\$190.5 billion) in the third quarter of 2009.

The following ratings assigned to Banco Panamericano S.A had the outlook changed to positive from stable:

Long-term global local currency deposit rating: Ba2

Long-term foreign currency deposit rating: Ba2

Long-term foreign currency debt rating for senior unsecured notes and MTN Program: Ba2

Long-term foreign currency debt rating for senior subordinated notes: Ba3

Long-term Brazilian national scale rating: A1.br

The following ratings have been affirmed and remained unchanged:

Bank financial strength rating: D, with stable outlook

Short-term global local currency deposit rating: Not Prime

Short-term foreign currency deposit rating: Not Prime

Short-term foreign currency debt rating for the existing MTN Program: Not Prime

Short-term Brazilian national scale rating: BR-1

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