

Rating Action: Moody's affirms Sofisa's D+ BFSR, changes outlook to negative

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New York, April 14, 2010 -- Moody's Investors Service affirmed the D+ bank financial strength rating (BFSR) of Banco Sofisa S.A. (Sofisa), as well as its long- and short-term deposit ratings of Ba1 and Not Prime, and the Brazilian national scale deposit ratings of Aa2.br and BR-1, long- and short-term, respectively. Sofisa's long-term foreign currency senior debt rating of Ba1 was also affirmed. Moody's also changed to negative from stable the outlook on all these ratings.

In affirming Sofisa's ratings, Moody's acknowledged that the bank's specialized franchise in middle-market lending, its overall adequate credit and risk management, and well defined corporate governance practices all continue to support the bank's D+ BFSR.

The negative outlook on the ratings, however, reflects the anticipated changes in Sofisa's revenue mix as a result of the sale of its consumer finance arm, Sofcred. The prospect of lesser revenues diversification, coupled with the challenges of replacing such earnings with revenues from middle-market lending, add negative pressure to the ratings, particularly in light of increasingly competitive lending dynamics. Moreover, the strategic repositioning of the bank's activities implies a transition period that is likely to bring volatility to earnings.

Moody's recognizes that the sale of Sofcred offers the opportunity for management to focus on a market where it has proven experience. In fact, during 2009, Sofisa's consumer finance portfolio contributed to above-normal asset quality deterioration and increase in credit costs, which, ultimately, caused profitability to decline by hefty 88%. We note that the bank's robust capital levels and loan reserves would adequately cushion potential losses to its operation, as observed in the rating agency's scenario analysis.

Moody's last rating action on Sofisa was taken on September 22nd, 2009, when Moody's Investors Service upgraded the bank's long-term foreign-currency deposit rating to Ba1 from Ba2, with a stable outlook. The rating action followed the conclusion of the review for possible upgrade of Brazil's country ceilings for foreign currency bonds and deposits that had been announced on July 6, 2009.

The principal methodologies used in rating Sofisa were "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology", which 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.

Banco Sofisa S.A. is headquartered in São Paulo, Brazil. As of December 2009, the bank had total assets of approximately R\$4.7 billion (US\$2.6 billion) and equity of R\$763 million (US\$429 million).

The following ratings of Banco Sofisa were affirmed:

Bank financial strength rating: D+, outlook changed to negative from stable

Long-term global local-currency deposit rating: Ba1, outlook changed to negative from stable

Short-term global local-currency deposit rating: Not Prime

Long-term foreign-currency deposit rating: Ba1, outlook changed to negative from stable

Short-term foreign-currency deposit rating: Not Prime

Long-term foreign-currency debt rating: Ba1, outlook changed to negative from stable

Long-term Brazilian national scale deposit ratings: Aa2.br, outlook changed to negative from stable

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

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