

Rating Action: Banco Paulista S.A.

Moody's assigns first-time ratings to Banco Paulista

New York, July 10, 2008 -- Moody's Investors Service assigned a bank financial strength rating (BFSR) of E+ to Banco Paulista S.A. (Paulista). At the same time, Moody's gave the bank ratings for long- and short-term global local-currency (GLC) deposits of B1 and Not Prime, respectively. Paulista also received long- and short-term foreign currency deposit ratings of B1 and Not Prime. In addition, Moody's assigned long- and short-term Brazilian National Scale ratings of Baa2.br and BR-3, respectively, to Paulista. All ratings have stable outlook.

Moody's noted that the E+ BFSR reflects the challenges related to Paulista's developing banking franchise as it focuses on the consumer finance segment, and on vehicle financing, in particular. The rating also addresses the bank's limited financial flexibility as indicated by modest recurring profitability, poorly diversified funding sources, and tight capital structure, which may constrain growth prospects.

Paulista's shift in business focus over the past two years from commercial lending to payroll lending, and then to vehicle financing has sacrificed asset quality, at least when indicators are measured against the bank's prior history of low delinquencies. In addition, Paulista's thin capital base prompted management to lever its origination capability by securitizing loans in the local capital markets.

Moody's emphasized that Paulista's business-diversification efforts are positive from a credit perspective, as is its well-recognized operation of providing financial and clearing services to Brazilian brokerage houses. The bank's traditional foreign exchange business contributes to steady fee-based earnings, operating on the back of a prudent risk and compliance framework.

Moody's, however, said that it is also critical that the bank's expansion ensures that both profitability and asset quality metrics be maintained to support sustainable and recurrent earnings generation. Improved corporate governance would also go far in contributing to future growth and business sustainability, Moody's added.

The B1 global local-currency deposit rating incorporates Banco Paulista's Baseline Credit Assessment of B1, as well as Moody's assessment that no systemic support would be available in case of stress because of the bank's limited market share in terms of deposits.

Banco Paulista is headquartered in São Paulo, Brazil. As of March 2008, the bank reported R\$968.4 million in assets and R\$118.7 million in equity.

The following ratings were assigned to Banco Paulista S.A.:

Bank Financial Strength Rating: E+

Global Local-Currency deposits, long term: B1

Global Local-Currency deposits, short term: Not Prime

Foreign Currency deposits, long term: B1

Foreign Currency deposits, short term: Not Prime

Brazilian National Scale rating, long term: Baa2.br

Brazilian National Scale rating, short term: BR-3

Outlook: Stable

Sao Paulo
Ceres Lisboa
Vice President - Senior Analyst

Financial Institutions Group
Moody's America Latina Ltda.
55-11-3043-7300

New York
M. Celina Vansetti
Senior Vice President
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."