

Fitch Gives Thumbs Up to Banco do Brasil and Down to Brazil's Banco Rural

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Fitch Ratings, the international rating agency, has today affirmed Banco do Brasil's long-term foreign and local currency ratings at 'BB-' and 'BB', respectively; the short-term foreign and local currency ratings at 'B'; the individual rating at 'C/D'; and the support rating at '4'.

At the same time, Fitch affirms the long and short-term national ratings of, respectively, 'AA(bra)' and 'F1+(bra)'. The Outlook of the long-term ratings remains Stable.

Banco do Brasil's foreign currency ratings are at the sovereign ceiling, while the long-term local currency rating is above the sovereign, reflecting the bank's status in the Brazilian financial system, its increasing commercial and administrative independence of the federal government in recent years, and the market's perception of Banco do Brasil as a safe haven in times of stress.

The national ratings on Banco do Brasil also reflect the bank's ownership structure, while the individual rating mirrors its market leadership in several sectors and the continuous improvement of its financial profile since June 2001, with the bank becoming more competitive, even in comparison with large private banks.

The rating also reflects the low quality of its capital due to the high (though declining) level of tax credits, its increased volume of subordinated debt, and the consequent low volume of Tier I capital. In addition, it reflects Fitch's expectations regarding the deferred assets reduction and the effect of this on future profits.

Banco Rural Downgraded

Fitch Ratings, on the other hand, downgraded the long- and short-term national ratings of Banco Rural to 'BB-(bra)' from 'BBB-(bra)' and 'B(bra)' from 'F3(bra)', respectively. At the same time, all ratings remain on Negative Watch, and Fitch has affirmed the support rating of '5'.

This rating action reflects changes in the risk profile of Rural, given the impact on its funding and operations, due to its image deterioration.

Founded in 1948, Rural is a multiple bank controlled by five members of the Rabello family (84.7% of the voting stock), with a tradition in lending to small- and medium-sized companies.

Headquartered in Minas Gerais, it had 97 domestic outlets (75 branches) at March 2005 and a solid overseas presence, consisting of seven banking entities, mostly focused on foreign trade finance.

Fitch - www.fitchratings.com