MOODY'S INVESTORS SERVICE

Credit Opinion: Banco Industrial do Brasil S.A.

Global Credit Research - 25 May 2010

Sao Paulo, Brazil

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Ba2/NP
NSR Bank Deposits -Dom Curr	A1.br/BR-1
Bank Financial Strength	D

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Key Indicators

Banco Industrial do Brasil S.A.

	[1]Dec-09	Jun-09	[2]Dec-08	Jun-08	Dec-07	[3]Avg.
Total Assets (US$B)	1.03	0.95	0.70	1.04	1.07	[4]-2.12
Share Equity (US$M)	221	195	163	233	204	[4]4.20
Pre-Provision Profit/Tt.Avg. Assets	4.16	4.01	2.81	3.30	3.30	3.52
ROAA	2.15	2.08	2.10	2.65	2.04	2.21
NIM	6.76	6.82	5.74	6.75	6.56	6.53
Oper Expenses/Gross Op. Revenues	44.55	45.05	58.69	51.44	48.62	49.67
NPL/Gross Loans & Lease	1.84	2.01	1.75	1.30	1.01	1.58
BIS Ratio	25.41	26.09	22.92	26.30	27.50	25.64

[1] As of December 31. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of D to Banco Industrial do Brasil S.A. (BIB). The rating translates into a baseline credit assessment (BCA) of Ba2. BIB's BFSR is supported by the bank's well-defined focus on small- and middle-market (SME) lending. The rating also benefits from the bank's disciplined operation and management's conservative lending policy, both resulting in good asset quality.

In Moody's view, BIB would receive no support from the government should a systemic crisis occur, given the bank's small participation in the retail deposit market in Brazil. Because the absence of systemic support results in no lift in notches from the bank's BCA, Moody's assigns a global local currency (GLC) deposit rating of Ba2 to BIB.

Rating Drivers

- Highly liquid assets, mostly composed of short-term self-liquidating credit operations

- Historically low leverage, when compared with local peers'

- Long track-record of low delinquency ratios on the back of a conservative credit culture

- Increased competition from rivals with broader product offerings

- Funding dependence on wholesale deposits and credit sales

Rating Outlook

All ratings have a stable outlook.

What Could Change the Rating - Up

Positive pressure on BIB's ratings could derive from more robust, predictable, and diversified revenue generation and a strengthened franchise as a middle-market lender. Increased diversification in the bank's funding structure could also be positive to ratings, as could maintaining a tight gap in the term structure of assets and liabilities. In addition, ratings could also benefit from further improvement in corporate governance practices.

What Could Change the Rating - Down

Negative pressure on BIB's ratings could result from margin compression and a decline in revenues due to harsher competition in the middle-market lending segment. Ratings may also be pushed down as a result of an increase in funding costs because of liquidity tightening, which could eventually hit profitability ratios.

Recent Results and Developments

BIB reported a net income of R$38.6 million in December 2009; on an annual basis, the bank's bottom line result grew 5.6%. Interest expenses were a significant contributor to the bank's improved result in 2009 - on a year-on-year basis they showed a decline of 45.3%. The bank was able to keep funding costs low by avoiding issuing relatively more expensive DPGE (special time deposits instruments collateralized by resources from the deposit insurance fund) and by diligently approaching corporate clients and financial institutions. Additionally, BIB also posted growth in total assets of 8.8% to R$1.8 billion.

In 2009, BIB's profitability ratios were slightly higher than those reported at year-end 2008, interrupting a slow downward trend extending from 2006 to 2008. Core earnings and net interest margins stood at 4.2% and 6.8%, respectively, while return on average assets was 2.2%; in 2008, these ratios were 2.8%, 5.7% and 2.1%, respectively.

The bank reported an increase in loans more than 60 days overdue relative to its total portfolio; the ratio went up to 1.84% year-end compared to 1.75% in December 2008. Nevertheless, it is important to note that asset quality has been deteriorating overall in the Brazilian financial system as a result of the still-ongoing economic slowdown. Moreover, BIB's delinquency ratios are relatively low compared to those of small- and medium-sized banks. Management continued to retain most of the loans originated on balance sheet; from a total of R$1.12 billion of loans originated in the year, R$942 million (84%) were not used in credit sale agreements.

The bank maintained its robust capital cushion in 2009 and reported a BIS ratio of 25.4%, which was well above the minimum regulatory requirement of 11%.

DETAILED RATING CONSIDERATIONS

Detailed rating considerations for BIB's currently assigned ratings, include:

Bank Financial Strength Rating

Moody's assigns a D BFSR to BIB, reflecting the bank's modest franchise value in commercial lending to small- and mid-sized companies (SME). The rating also incorporates the bank's good asset quality, which results from management's diligent control over loan collaterals and from its conservative credit policy.

Additionally, the fairly stable performance of BIB's profitability indicators have a positive influence on the BFSR. The bank has posted a track record of adequate ratios that presented limited volatility over the past years. In 2009, return on assets and core earnings improved despite a more stressed scenario in the country as increasing delinquency and tightened liquidity pressured banks' profitability in general. The country's regulatory environment also helps BIB's BFSR, but in the same way it does all banks in Brazil.

The assigned BFSR stands three notches below the scorecard implied rating of C. Moody's believes the assigned BFSR captures the tougher competitive environment present in the SME lending segment, especially as large retail banks intensify their participation in the markets previously dominated by small- and medium-sized banks. Additionally, family-based ownership and limited governance practices, such as the lack of segregation of management and the bank's sole shareholder (key-man risk), constrain the rating.

Qualitative Factors (70%)

Factor: Franchise Value

Trend: Neutral

BIB has a modest franchise in the segment of commercial lending to small- and mid-sized companies. Nevertheless, the bank enjoys an adequate track record in that market, which has enabled management to develop an expertise in analyzing client risk profiles and becoming familiar with both the organization and the structure of SMEs. As a result, BIB has built a self-liquidating credit portfolio fully backed by guarantees with a good liquidity level, as stated by management.

In 2005, BIB started to operate in the payroll-deductible lending business. The decision to do so contributed to revenue diversification and produced significant credit origination.

However, the fierce competition in the segment, along with the small margins and high costs imposed by third-party intermediates responsible for loan origination, led management to gradually decrease BIB's participation in that segment and to increase its focus on operations oriented to the middle-market segment.

BIB's wholesale operations are concentrated in the southeastern region of Brazil. The bank has five branches that provide support to its commercial-lending activities. Generally, BIB's clients distribute their funding needs amidst eight to 10 small- to medium-sized banks. Usually, those clients also operate with large retail banks, a fact that ends up adding more competition to this already dynamic market. However, the flexible and agile business model of banks such as BIB is key to sustaining market share in that segment.

The overall scorecard outcome of D reflects the bank's small market share nationwide, as well as its modest scale.

Factor: Risk Positioning

Trend: Neutral

As a family-owned bank, BIB is controlled by a single shareholder (Mr. Carlos Mansur); however, it does boast a professionalized management. Until November 2007, Mr. Mansur was the main shareholder of Vigor and Leco, two traditional companies in the dairy and vegetable-oil manufacturing industries. After that date Mr. Mansur sold the control of both companies and the bank became his main investment.

Management has established new corporate governance guidelines since 2007, when the bank communicated the shareholder's intention to go public. Those guidelines comply with São Paulo Stock Exchange's (BOVESPA) Level I requirements.

Disciplined risk management practices, grounded on a web-based platform (developed in-house and tailor-made for the bank's needs), offer rigid and accurate control over credit positions, assets and liabilities, and liquidity gaps. The complexity of the system enables management to monitor the status of receivables used as collateral for all loans in the credit portfolio. The on-line monitoring also allows management to act swiftly to start the recovery process of nonperforming loans, thereby maintaining the good quality of BIB's loan book. Moreover, the track record of operations registered in the system enables management to better understand the risk profile of its clients and permits agility in credit approval decisions.

Factor: Regulatory Environment

Moody's will comment on the Brazilian regulatory environment in a separate report.

Factor: Operating Environment

Trend: Neutral

Moody's grades the Brazilian operating environment at D. The D derives from a score of E for economic stability (measured as nominal GDP volatility over the 20-year period of 1984-2004), and there is also a D rating for integrity and corruption. The integrity and corruption index is based on data from the World Bank, which ranks approximately 200 countries worldwide.

The legal system's score of C indicates the average length of time required for the execution of guarantees in Brazil, in the absence of reliable references for mortgage foreclosure.

Quantitative Factors (30%)

Factor: Profitability

Trend: Neutral

BIB has a track record of relatively stable profitability indicators, in line with its shareholder's conservative appetite for credit risk. Over the past three years, return on assets stood between 2% and 2.15% while core earnings remained between 2.8% and 4.2%.

In 2009, the bank reported a slight increase in profitability despite the liquidity tightening that resulted in increased funding costs in the domestic environment. In that sense, management was able to keep BIB's interest expense under control, which helped bottom-line results. The declining trend of the benchmark interest rate caused margins to compress, resulting in less revenues from loan operations and securities than posted in 2008.

BIB's profitability ratios were also constrained by the increased competition for SME lending, already present throughout 2008. In 2009, the three-year average ratio of pre-provision profits to average risk-weighted assets (RWA) was 4.2% and that of net income to average RWA was 2.6%.

As a refinement to our analysis, we adjust risk-weighted assets by assigning a 50% weight to government securities instead of 0% (as required by Brazilian regulators), which reduces profitability indicators. However, the score for profitability remains as an A under that scenario.

Factor: Liquidity

Trend: Neutral

BIB's funding structure is mostly reliant on wholesale-based deposits - time deposits with both corporate and financial institutions - and shows high concentration in terms of depositors; in that sense, BIB's funding base is similar to those of other banks focused on loan operations with small- and mid-sized companies. Nevertheless, during the past two years, BIB's funding base has experienced some qualitative improvements. More specifically, there has been a change in the deposit mix, with more time deposits from financial institutions and banks and less participation from pension funds. In other words, there has been a movement towards a less liquidity-sensitive deposit base.

The bank was able to weather the period of tight liquidity in local markets and reached December 2009 with total deposits of R$816 million, or 7% more than total deposits in September 2008. Although their scale was smaller than in previous years, the recursive-based sale of payroll-deductible loans complemented funding needs.

The bank's incursions in the international markets include long-term facilities approved by multilateral banks, such as a 3-year US$6 million credit line for trade finance operations with the IDB provided in September 2006, a 10-year US$15 million subordinated debt with the DEG in January 2007 and a total of US$36 million in short-term notes issued in 2008.

BIB has a score of B for liquidity.

Factor: Capital Adequacy

Trend: Neutral

BIB scores A for capital adequacy. In December 2009, the bank's BIS ratio stood at 25.4%, which was well above the minimum requirement of 11%. This level of capitalization provides support for further growth of BIB's credit portfolio and confirms the conservative approach of BIB's shareholder towards the bank's capital by reinvesting dividends in its operation.

The score for capital adequacy remains as an A, even after adjusting for risk-weighted assets at a 50% weight for government securities.

Factor: Efficiency

Trend: Neutral

The bank has reported adequate efficiency ratios over the last three years, averaging 50.62%, which is explained, in part, by its lean operating structure. The recent improvement in BIB's efficiency ratio - to 44.5% in 2009 from 58.7% in 2008 - reflects management's effort to maintain funding costs at a low level.

The bank has an B score for efficiency.

Factor: Asset Quality

Trend: Neutral

As of December 2009, BIB's loans overdue more than 60 days represented 1.84% of the loan book. The ratio was adequate, although it showed a slight deterioration from 1.75% at year-end 2008. The highly collateralized nature of BIB's loan book supports the good quality of the credit portfolio. BIB's asset quality ratios were in line with those reported by middle market lending banks.

The bank also reports low non-performing loan ratios as a result of its disciplined risk management practices, which are supported by systems developed in-house that monitor the performance of receivables used as collateral, and by the prudent standards management adopts when approving new credit operations.

BIB has a B+ score for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's GLC deposit rating of Ba2 for BIB does not receive any lift from the bank's BCA of Ba2 because Moody's believes the Brazilian government would probably not extend any support to the bank should a systemic crisis occur. The reason for this is the insignificant size of BIB's participation in Brazil's retail deposit market.

Moody's also does not consider that support from the main shareholder, Mr. Mansur, would be forthcoming. Nevertheless, Mr. Mansur, who used to hold investments in the dairy manufactory industry through Grupo Vigor, has already demonstrated his prudent attitude towards BIB's solvency by reinvesting dividends in the bank and by maintaining the capital ratio at a high level. According to management, proceeds from the sale of Mr. Mansur's companies would likely be directed to be bank. Furthermore, Mr. Mansur also maintains resources in the bank in the form of deposit certificates.

National Scale Rating

BIB has Brazilian National Scale Ratings of A1.br/BR-1. The ratings are supported by BIB's creditworthiness in its niche market of commercial lending to SMEs.

Foreign Currency Deposit Rating

Moody's assigns a Ba2 foreign currency deposit rating for BIB. The rating is two notches below the country's foreign currency deposit ceiling (Baa3).

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes: however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Banco Industrial do Brasil S.A.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D+**	
Factor: Franchise Value						**D**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification				**x**			
Earnings Stability				**x**			
Earnings Diversification [2]							
Factor: Risk Positioning						**E**	**Neutral**
Corporate Governance [2]					**x**		
- Ownership and Organizational Complexity				x			
- Key Man Risk				x			
- Insider and Related-Party Risks					x		
Controls and Risk Management			**x**				
- Risk Management				x			
- Controls		x					
Financial Reporting Transparency				x			
- Global Comparability				x			
- Frequency and Timeliness	x						
- Quality of Financial Information				x			
Credit Risk Concentration				**x**			
- Borrower Concentration				x			
- Industry Concentration			x				

Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						D	Neutral
Economic Stability					x		
Integrity and Corruption				x			
Legal System			x				
Financial Factors (30%)						B+	
Factor: Profitability						A	Neutral
PPP % Avg RWA - Basel II	4.20%						
Net Income % Avg RWA - Basel II	2.60%						
Factor: Liquidity						B	Neutral
(Mkt funds-Liquid Assets) % Total Assets	-12.50%						
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%) - Basel II	24.10%						
Tangible Common Equity / RWA - Basel II	24.10%						
Factor: Efficiency						B	Neutral
Cost/income ratio		50.62%					
Factor: Asset Quality						B+	Neutral
Problem Loans % Gross Loans		1.53%					
Problem Loans % (Equity + LLR)	3.42%						
Lowest Combined Score (9%)						B	
Economic Insolvency Override						Neutral	
Aggregate Score						C	
Assigned BFSR						D	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral