

Global Credit Research - 21 Jul 2010

Sao Paulo, July 21, 2010 -- Moody's Investors Service assigned a bank financial strength rating (BFSR) of C- and global local currency deposit ratings of Baa2, long term, and Prime 3, short term, to Banco Alfa de Investimento S.A. (Alfa). At the same time, Moody's assigned to Alfa long-term and short-term foreign currency deposit ratings of Baa3 and Prime 3, and national scale ratings in Brazil of Aaa.br and BR-1. The outlook on ratings is stable, except on the foreign currency deposit rating, which carry a positive outlook aligned with that of the Brazilian ceiling for foreign currency deposits.

Moody's said that the C- BFSR is supported by Alfa's focused business strategy and well-established lending franchise, which ensures that earnings generation is recurrent and sustainable. "As part of Alfa Financial Conglomerate, the bank's franchise benefits from a business model that has integrated management, including risk, controls, and support functions, but segregated operations", said Moody's Analyst, Alexandre Albuquerque. "Moreover, Alfa's conservative risk profile suggests that earnings stability and recurrence are management's key objectives, at the expense of market share or aggressive growth rates", noted Mr. Albuquerque. The bank targets primarily commercial lending to large and upper mid-size corporations, as well as consumer lending in the form of payroll loans and high-income vehicle financing. The C- BFSR translates into a baseline credit assessment (BCA) of Baa2.

The rating agency noted that Alfa's C- BFSR is also underpinned by: i) the group's steady profitability indicators, which have reported limited volatility over the past years; ii) its superior asset quality, as evidenced by loans overdue 60 days being consistently lower than 1% of total loans; iii) robust capitalization that could absorb substantial losses in a stress scenario, as suggested by a BIS ratio of 21% in 1Q10; and iv) a franchise that has proven resilient through business cycles, supported by expertise in its niche markets and by sound risk management practices.

Alfa's key credit challenges include: i) large credit concentration relative to profits and Tier 1 capital, as indicated by its top 20 largest credit exposures accounting for 147.5% of the bank's Tier 1 capital; ii) intense competition from large banks in its niche markets, which could erode margins and pressure profitability ratios; and iii) its predominantly wholesale funding mix, which may be more volatile and expensive.

The Baa2 global local-currency deposit rating incorporates Alfa's BCA of Baa2 as well as Moody's assessment that no systemic support would be available to the bank should a stress occur because of its limited importance to the system. However, Moody's acknowledges the commitment of the group's shareholders to the bank's operation and the track-record of conservative earnings retention policy.

The principal methodologies used in rating Alfa 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.com](http://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.

Banco Alfa de Investimento S.A. is headquartered in São Paulo, Brazil, and it is part of Alfa Financial Conglomerate. As of March, 2010, the financial conglomerate had total assets of approximately R\$12.1 billion (US\$6.7 billion) and equity of R\$1.72 billion (US\$950.5 million).

The following ratings were assigned to Banco Alfa de Investimento S.A.:

Bank financial strength rating: C-, stable outlook

Long-term global local-currency deposit rating: Baa2, stable outlook

Short-term global local-currency deposit rating: Prime-3

Long-term foreign-currency deposit rating: Baa3, positive outlook

Short-term foreign-currency deposit rating: Prime-3

Long-term Brazilian national scale deposit rating: Aaa.br, stable outlook

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

New York

Alexandre Albuquerque  
Analyst  
Financial Institutions Group  
Moody's Investors Service  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

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



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