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CREDIT OPINION
23 April 2018

Update

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RATINGS

Banco Industrial do Brasil S.A.

Domicile	Sao Paulo, Sao Paulo, Brazil
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banco Industrial do Brasil S.A.

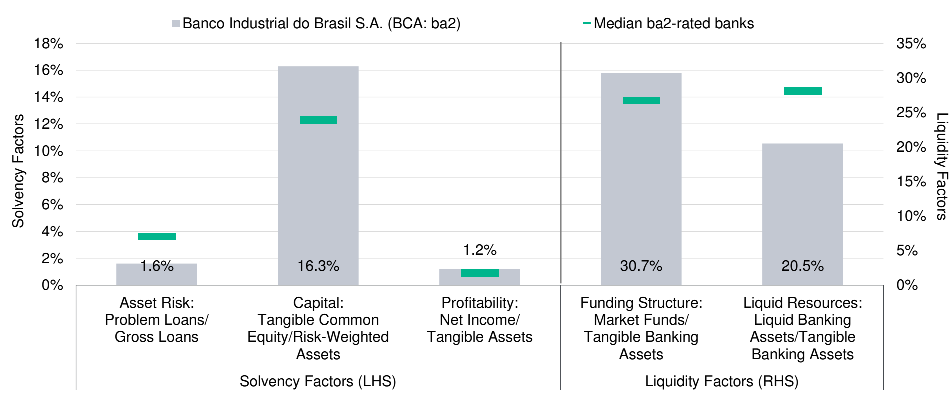
Update following sovereign action

Summary

On 10 April 2018, we affirmed the ratings and assessments assigned to Banco Industrial do Brasil S.A. (BIB). We also changed the outlook on all the ratings to stable from negative following the change in the outlook on Brazil's Ba2 sovereign rating to stable from negative on 9 April 2018.

BIB's Baseline Credit Assessment (BCA) of ba2 reflects the bank's adequate capital base and loan delinquency metrics, which result from its disciplined operations and consistent focus in terms of clientele and market niche. At the same time, the BCA reflects high borrower concentration relative to capital, which increases asset risk, and the high participation of wholesale instruments in the bank's funding structure.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Profitability metrics are adequate, despite slightly contraction as a result of the weak economy.

» Capitalization remains strong.

» Leverage has historically been lower than that of its local peers.

Credit challenges

» The bank's high borrower concentration relative to capital poses asset risks. In addition, the problem loan ratio has increased in line with weak economic activity.

» The bank depends on wholesale deposits for funding.

Outlook

Since 10 April 2018, all the bank's ratings have a stable outlook. BIB's Ba2 deposit ratings are at the same level as Brazil's sovereign bond rating and, therefore, the outlook is in line with the outlook on the sovereign bond rating.

Factors that could lead to an upgrade

There is no upward pressure at the moment because BIB's ratings are constrained by the Ba2 sovereign bond rating. Moreover, the slow recovery in the Brazilian economy is also limiting the bank's ratings.

Factors that could lead to a downgrade

Negative pressure on BIB's ratings could result from consistent asset quality deterioration, which could happen owing to still challenging market conditions in corporate lending, particularly to small and medium-sized enterprises (SMEs). The bank's ratings may also be downgraded as a result of a potential decline in profitability associated with higher provisions and an increase in funding costs. A consistent decline in profitability could compromise the bank's capacity to replenish capital through earnings, which could be negative in the long run.

Key indicators

Exhibit 2

Banco Industrial do Brasil S.A. (Consolidated Financials) [1]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (BRL billion)	3.0	2.9	2.6	2.5	2.2	7.9[4]
Total Assets (USD billion)	0.9	0.9	0.6	0.9	0.9	-1.0[4]
Tangible Common Equity (BRL billion)	0.5	0.5	0.5	0.5	0.5	2.9[4]
Tangible Common Equity (USD billion)	0.2	0.2	0.1	0.2	0.2	-5.5[4]
Problem Loans / Gross Loans (%)	1.6	0.6	1.0	1.1	2.9	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.3	15.7	15.5	16.0	16.8	16.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.8	2.4	3.2	3.8	9.3	4.9[5]
Net Interest Margin (%)	5.1	5.2	4.9	5.0	5.8	5.2[5]
PPI / Average RWA (%)	2.0	2.0	2.8	2.6	3.3	2.5[6]
Net Income / Tangible Assets (%)	1.2	1.7	1.8	1.6	1.5	1.6[5]
Cost / Income Ratio (%)	62.2	60.8	51.6	53.6	47.2	55.1[5]
Market Funds / Tangible Banking Assets (%)	30.7	29.8	33.5	33.6	42.0	33.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.5	14.2	26.9	29.4	18.6	21.9[5]
Gross Loans / Due to Customers (%)	140.7	167.1	157.6	149.7	245.9	172.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Source: Moody's Financial Metrics

Profile

Banco Industrial do Brasil S.A. is a privately owned bank, 100% controlled by Carlos Alberto Mansur, and operates as a multiple bank, focusing on commercial lending to SMEs. BIB's main products include working capital loans to companies secured by self-liquidating receivables, corporate overdraft accounts, and import and export financing. The bank's distribution network includes nine branches in the main cities of the southern and southeastern regions of Brazil, and one foreign branch in Nassau.

Detailed credit considerations

Increase in problem loans denotes higher asset risk

BIB's problem loan ratio, as measured by loans past due over 90 days/total loans, increased to 1.56% in December 2017 from 0.62% a year earlier. This weakening in asset quality reflected a 141% rise in the volume of problem loans to BRL31 million, while the total loan book declined 4.3% to BRL1.99 billion in the same period. At the same time, BIB reported a 23.6% drop in loans past due under 90 days to BRL13.4 million, a sign of early delinquency, and the volume of restructured loans doubled to BRL35 million in the same period. However, we maintain our view that asset-quality metrics will remain above the historical levels in 2018 owing to the still-fragile condition of the Brazilian economy.

The ba2 score for Asset Risk assigned to BIB incorporates the bank's high exposure to single-name concentration. In December 2017, the 20 largest borrowers accounted for 115% of the bank's tangible common equity (TCE), down from 117.2% a year earlier, which indicates high borrower concentration. The ba2 score also incorporates the large share of revenue from investment in securities relative to total revenue, which denotes market risk. In December 2017, such revenues accounted for 18.2% of total revenue.

In December 2017, BIB increased the volume of loan-loss reserves to BRL32.6 million from BRL21.4 million in December 2016. Despite that, such reserves as a percentage of problem loans dropped to 104.9% from 166.0% a year earlier owing to the larger volume of problem loans.

Capitalization stabilized at a strong level

We assign a score of baa1 for Capital, which reflects BIB's strong capital position, with a Moody's-adjusted TCE/risk-weighted assets (RWA) of 16.27% in December 2017, slightly higher than the 15.74% a year earlier. We have a more conservative view on capital adequacy, and adjust the bank's TCE/RWA by assigning 100% weight for government securities and limiting to 10% the amount of deferred tax assets that can contribute to TCE. In December 2017, BIB's regulatory capital ratio was 16.24%, slightly higher than the 16% in December 2016 and above the regulatory minimum of 11%.

In recent years, BIB has reported capital ratios that showed a strong buffer over the regulatory minima, mostly as a result of a consistent and moderate expansion in operations, specifically relative to lending activities. For future quarters, we expect a reduction in capital replenishment through retained earnings owing to negative pressure on profitability, both from the need for higher loan-loss provisions and from low business volume.

Slow economic recovery will likely keep profitability modest

Our assessment of ba2 for Profitability incorporates the low earnings volatility reported by the bank. BIB has a track record of modest, but steady, profitability indicators. The composition of BIB's earnings mix has not changed significantly over time, which shows consistency in management's strategy.

A significant share of the bank's revenue comes from lending operations, which accounted for around 58% of BIB's earnings in December 2017. Loans to SMEs constituted around 82% of the bank's loan book, with the remainder being payroll-deductable loans to individuals.

In December 2017, BIB's bottom-line results declined 27% to BRL34.8 million from BRL47.9 million a year earlier. The bank's net income weakened because loan-loss provisions increased 5.4x to BRL4.74 million and operating expenses grew 6.4%. Negative effects on net income were partially offset by an 18.6% decline in interest expenses on deposits, reflecting the bank's continued efforts to reduce funding costs.

Predominance of wholesale-based instruments in the funding structure

The b3 score for Funding Structure reflects BIB's reliance on wholesale-based deposits and the high concentration of depositors in its funding base, as the 20 largest depositors account for around 37% of its deposits. The b3 score also incorporates the concentration of the bank's funding base toward more confidence-sensitive investors, such as asset managers, who represented 31% of its total funding in December 2017.

Nevertheless, BIB has also made efforts to improve the quality of its funding base by changing its deposit mix and increasing the participation of less volatile investors, such as companies and financial institutions, which together had time deposits that accounted for 55% of the bank's total funding in December 2017.

BIB reported an increase of 7.3% in its funding base to BRL2.3 billion from one year earlier. The bank also reported an annual growth of 15.9% in time deposits to BRL1.13 billion.

Liquidity benefited from lower lending activity

In December 2017, BIB's liquid banking assets/tangible banking assets was 20.46%, slightly higher than the 14.18% a year earlier, reflecting a rise of 210% to BRL117.6 million in the volume of its securities portfolio and a net balance of repurchase operations with other banks that totaled BRL353.7 million.

We view BIB's liquidity as adequate, particularly when measuring the volume of available cash to deposits and to equity, of 20% and 74%, respectively, in December 2017. As a result, we assign a score of ba3 for Liquidity, which also reflects the recent rise in the bank's volume of liquid assets.

BIB's rating is supported by the Moderate- Macro Profile of Brazil

Brazil's Moderate- Macro Profile reflects the country's large and diversified economy, balanced by its weak economic performance following two years of recession and the difficult political scenario, which together increase challenges for Brazilian banks' operating environment. The pace of loan growth declined significantly in 2016 and falling inflation has resulted in monetary policy easing. However, the banks remain reluctant to reduce lending rates, which has relieved part of the earnings pressure arising from asset risks. Although public banks hold a 57% share of total loans in Brazil, loan growth at these lenders has slowed significantly since mid-2016, under more prudent government guidelines, which we expect will remain in place and will help reduce pricing and tenor distortions. Capital and funding remain adequate, and exposure to international capital markets will remain low. External vulnerability is also limited by Brazil's sizable international reserves, which reduce the country's sensitivity to external shocks, such as sudden stops in capital flows.

The change in Macro Profile to Moderate- occurred in June 2017 (previously at Moderate), and resulted from the increased political risk that affected the Banking Country Risk component, a key driver in our Macro Profile Assessment. By lowering Brazil's Macro Profile to Moderate-, the factor scores used in assessing banks' individual financial profiles, and, thus, to define the BCA, are compressed at lower levels.

Support and structural considerations

Government support

We believe there is a low likelihood of government support for BIB's rated deposits, which reflects the bank's small share of deposits and assets in Brazil's banking system.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BIB's CR Assessment is positioned at Ba1(cr)/Not-Prime(cr)

The CR Assessment is one notch above the bank's Adjusted BCA of ba2, and, therefore, above the deposit rating of the bank, reflecting our view that its probability of default is lower at the operating obligations than of deposits. The CR Assessment of BIB does not benefit from government support because government support is not incorporated in the bank's deposit ratings.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 3

Banco Industrial do Brasil S.A.

Macro Factors		
Weighted Macro Profile	**Moderate -**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	baa3	← →	ba2	Single name concentration	Sector concentration
Capital						
TCE / RWA	16.3%	baa1	← →	baa1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.2%	ba1	← →	ba2	Earnings quality	
Combined Solvency Score		baa2		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	30.7%	b1	← →	b3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.5%	ba2	← →	ba3	Quality of liquid assets	
Combined Liquidity Score		ba3		b2		
Financial Profile				ba2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Ba2		
Scorecard Calculated BCA range				ba1-ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1 (cr)	--
Deposits	0	0	ba2	0	Ba2	Ba3

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO INDUSTRIAL DO BRASIL S.A.	
Outlook	Stable
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba2/NP
NSR Bank Deposits	Aa3.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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