

Rating Action: Moody's affirms Banco Industrial do Brasil's ratings, outlook stable

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New York, March 01, 2019 -- Moody's Investors Service ("Moody's") has today affirmed all ratings assigned to Banco Industrial do Brasil S.A. (BIB), including the long-and short-term deposit ratings of Ba2 and Not Prime (NP) for local currency and Ba3/Not Prime for foreign currency in global scale, the long and short-term national scale deposit rating of Aa3.br/BR-1, as well as the long and short-term counterparty risk rating of Ba1/ Not Prime, in local and foreign currencies. Moody's also affirmed BIB's assessments, including the baseline credit assessment (BCA) of ba2, and counterparty risk assessments of Ba1(cr) for long-term and Not Prime(cr) for short-term. The ratings have a stable outlook.

A full list of the affected ratings and assessments is provided at the end of this press release.

RATINGS RATIONALE

The affirmation of BIB's ratings reflects Moody's expectation that the bank will continue to report adequate financial metrics over the next 12 to 18 months, supported by a consistent business strategy that results in stable and recurring profitability, strong capital cushion and low delinquency levels. BIB's earning generation will remain modest and will benefit from an anticipated higher volume of loan origination, despite increased competition from peer banks and low interest rates. BIB's core business is lending to small and mid-sized companies (SMEs), from which it sources most of its revenues, complemented by earnings from payroll lending to public servants.

BIB's loan portfolio grew 16.5% in 2018, which was far above the 5.5% system's growth, and partially supported the decline in the 90-day problem loan ratio to 0.8% of total loans from 1.4% one year prior. In general, BIB's asset quality still performs better than the industry's average metrics, reflecting the bank's high volume of short-term, collateralized loans, backed by self-liquidating receivables, which help mitigate credit risk. On the other hand, the high loan renegotiation volume and early delinquency ratios raise potential challenges to asset risk if Brazil's economic recovery remains tepid. In a possible downturn scenario, BIB's high exposure to the largest 20 borrowers relative to tangible common equity (TCE), at 136% as of December 2018, could pressure asset risk.

BIB has also demonstrated capacity to deliver modest but positive bottom-line results, with the ratio of net income to tangible banking assets averaging 1.56% over the past 5 years. However, the bank's performance in 2018 was driven by flat income from loans and stronger treasury gains and fees, in addition to lower provision for credit losses.

A key positive factor supporting BIB's ratings is the bank's consistent high levels of capital, with ratios of Moody's TCE to risk weighted assets (RWAs) above 15.5% over the past 6 years, even after accounting for payout ratios usually above 50%. In 2019, we expect the bank will face modest pressure on capital if it reports double-digit growth of its credit portfolio.

BIB's ratings are constrained by its concentrated funding base, with large reliance on highly confidence-sensitive wholesale depositors. Although the bank reports a dependence on market funds below 30% of its total funding, the 20 largest investors account for roughly 50% of local funds, including deposits, deposits like-instruments (LCIs and LCAs) and local banknotes (LFs). In addition, more than 70% of such funds are comprised of assets and investment funds, financial institutions and private pension investors. We expect no material change in BIB's funding position in the next 12 to 18 months, since the bank has limited access to fundraising from both brokers and its still-incipient digital platform. BIB's modest liquidity cushion is offset by an adequate asset liability management.

The affirmation of BIB's Ba2 deposit ratings also reflects the affirmation of the bank's adjusted BCA of ba2 and does not incorporate any uplift from affiliate or government support.

WHAT COULD CHANGE THE RATINGS UP/DOWN

BIB's ratings are at the same level as Brazil's sovereign rating, and therefore, upward ratings movement is unlikely at this point, unless the sovereign rating of Brazil is upgraded and provided the bank's financial strength, including its above peers' asset quality and capital remains robust.

However, BIB's ratings could be downgraded if the sovereign rating is downgraded, because the bank's standalone BCA is constrained by the sovereign rating. There could be negative pressure on BIB's ratings as a result of material asset-quality deterioration and lower profitability coming from 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.

METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113601.

Banco Industrial do Brasil S.A. is headquartered in São Paulo, Brazil. As of 30 December 2018, BIB reported consolidated assets of BRL3.2 billion and shareholders' equity of BRL510 million.

LIST OF AFFECTED RATINGS AND ASSESSMENTS

The following ratings and assessments of Banco Industrial do Brasil S.A. were affirmed:

- Long-term global local currency deposit rating of Ba2; stable outlook
- Short-term global local currency deposit rating of Not Prime
- Long-term global foreign currency deposit rating of Ba3, stable outlook
- Short-term global foreign currency deposit rating of Not Prime
- Long-term global local currency counterparty risk rating of Ba1
- Short-term global local currency counterparty risk rating of Not Prime
- Long-term global foreign currency counterparty risk rating of Ba1
- Short-term global foreign currency counterparty risk rating of Not Prime
- Long-term Brazilian national scale deposit rating of Aa3.br
- Short-term Brazilian national scale deposit rating of BR-1
- Long-term Brazilian national scale counterparty risk rating of Aaa.br
- Short-term Brazilian national scale counterparty risk rating of BR-1
- Baseline credit assessment of ba2
- Adjusted baseline credit assessment of ba2
- Long-term counterparty risk assessment of Ba1(cr)

- Short-term counterparty risk assessment of Not Prime(cr)
- Outlook, Stable

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