



Tagging Info

Fitch Upgrades Banco Industrial do Brasil's IDRs to 'BB'/'A+(bra)'; Outlook

Stable Ratings Endorsement Policy

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Fitch Ratings-Rio de Janeiro/Sao Paulo-28 April 2015: Fitch Ratings has upgraded Banco Industrial do Brasil's (BIB) Long-term Issuer Default Rating (IDR) to 'BB' from 'BB-' and its Long-term National Rating to 'A+(bra)' from 'A(bra)'. The Rating Outlook remains Stable. A full list of rating actions follows at the end of this press release.

Key Rating Drivers

The upgrade of Banco Industrial do Brasil's (BIB) ratings reflects its stable risk profile, adequate performance, above-peer average, as well as the good asset quality, liquidity and capitalization, through the different Brazilian economy cycles. The ratings are also supported by BIB's experience and consistent focus on small and medium-sized companies (SMEs). On the other hand, these factors are offset by the bank's small size, when compared to peers and by the asset and liability concentrations inherent to its business model.

Despite the challenges of the environment, in 2014 BIB improved its credit quality indicators, with past-due loans over 90 days at a low 0.7% of the total (2.6% in 2013) and maintained low leverage, reflecting its more conservative appetite for credit risk, given the current weaker macroeconomic scenario. BIB has one single company in its portfolio which is involved in the 'Lava Jato' operation of the Federal Police Department, representing only 1.5% of the total portfolio, which should result in a slight provisioning increase in 2015, with no relevant impact on its good credit quality indicators.

Over the last several years, the bank has focused on the SME segment, after having sharply reduced its payroll deductible loan business which accounted for only 12% of its loan portfolio in 2014. The bank has focused its operations on companies with invoicing above BRL250 million. In addition, it has looked for stronger collateral coverage to reduce the risks in the more challenging scenario. In 2014, the 20 largest clients accounted for around 30% of the portfolio.

BIB's results improved in 2014, amidst a scenario of weak macroeconomic performance, as the bank benefited from improvements in terms of financing costs and moderate competition in the SME segment. The bank's profitability was above its peers (ROAA of 1.7% in 2014; 1.5% in 2013; and 1.8% in 2012), showing consistency throughout recent years. Fitch expects BIB's profitability to remain adequate in upcoming years.

The 20 largest deposits accounted for 48% of total deposits in 2014. The bank has diversified its funding base, as it was able to access trade finance lines with multilateral agencies. In 2014, BIB significantly expanded its term-deposit funding base (by 49%) at competitive costs and terms. During that same year, the bank has also improved its liquidity position, with net assets accounting for 44% of total deposits (23% in 2013), while Fitch's Core Capital ratio was reasonably comfortable, at 16.3%.

Rating Sensitivities

Positive Rating Action: Given its current business model, with asset and liability concentrations inherent to its size, new rating upgrades are limited. Upgrades would depend upon the strengthening of the bank's local franchise, increased funding diversification, product mix and expanded operations, which could reduce asset and liability concentration.

Negative Rating Action: On the other hand, the ratings could be negatively affected by deterioration in BIB's asset quality, with the consequent performance decline (operating ROAA below 1.0%) and reduction of capitalization ratios (Fitch's Core Capital below 13.0%).

Fitch has taken the following rating actions:

- Long-term Foreign and Local Currency IDRs upgraded to 'BB' from 'BB-'; Outlook Stable;
- Short-term Foreign and Local Currency IDRs affirmed at 'B';
- Viability Rating upgraded to 'bb' from 'bb-';
- Support Rating affirmed at '5';
- Support Rating Floor affirmed at NF ;
- Long-term National Rating upgraded to 'A+(bra)' from 'A(bra)'; Outlook Stable;
- Short-term National Rating affirmed at 'F1(bra)'.

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Applicable Criteria and Related Research:

-- Global Financial Institutions Rating Criteria (March 20, 2015);

-- National Scale Rating Criteria (October 30, 2013).

Applicable Criteria and Related Research:

National Scale Ratings Criteria

Global Financial Institutions Rating Criteria - Effective from 31 January 2014 to 20 March 2015

Additional Disclosure

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