FitchRatings

Fitch Affirms Banco Industrial do Brasil's Ratings at 'BB'/'AA-(bra)'

Fitch Ratings-Rio de Janeiro/Sao Paulo-06 July 2016: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Banco Industrial do Brasil S.A. (BIB) at 'BB' and its Long-Term National Rating at 'AA-(bra)'. The Rating Outlook for the National Rating is Stable. A full list of the rating actions follows at the end of this press release.

KEY RATING DRIVERS

The affirmation of BIB's IDRs reflect its Viability Rating (VR) which, on its own, factor in its stable operating profile, with consistent experience and focus on small and medium-sized companies (SMEs). BIB's VR also takes into account its adequate and above peer average performance, as well as the good asset quality, liquidity and capitalization in different Brazilian economy cycles. On the other hand, the bank's size is small when compared to peers and there are asset and liability concentrations, which are inherent to its business model.

The Negative Outlook for BIB IDRs reflects Fitch's view that the main credit indicators of medium-sized banks, such as BIB, are highly influenced by the operational environment and could suffer additional pressures, taking into account the agency's expectations of continued weakening of the operating conditions in the country, as it was made evident by the Negative Outlook assigned to the Brazilian banking sector.

During the last few years, the bank has maintained the strategy to operate basically in the SME segment, keeping a payroll discount credit portfolio of only 13% in 2015, where it operates basically with credit renewal, without plans to expand into new clients. The SME operation is concentrated on companies with invoicing above BRL250 million. Furthermore, the bank has searched for higher guarantees to reduce the risk of a more challenging economic scenario. The portfolio growth has been conservative in recent years and in 2015 it was only 2.3%.

The bank showed deterioration in its credit quality indicators during the first quarter of 2016, although these have remained at adequate levels, even in a more challenging economic environment. The non-performance loans ratio was at a low 2.5% in March 2016, around 1.0% in 2015 and 2014, against 2.6% in 2013. Impaired loans (Credits classified in the 'D-H' rating category) represented 3.8% in March 2016 (3.4% in 2015 and 1.8% in 2014), still better than peer average. BIB maintained its low leverage, reflecting its more conservative appetite for credit risk, given the current scenario of macroeconomic deterioration. The bank's credit portfolio concentration remained high, albeit controlled. The 20 largest clients represented around 30% of the portfolio in 2015 and 2014.

BIB's profitability was above that of its peers, having been consistent in recent years (ROAA of 1.9% in 2015; 1.7% in 2014; and 1.5% in 2013). The results improved, even amidst a scenario of weak macroeconomic performance. This is because financing costs improved and competition in SMEs segment is more moderate, resulting in good spreads. Fitch expects BIB's profitability to remain adequate in the upcoming years.

The bank has diversified its concentrated funding base, by accessing trade financing facilities from multilateral agencies, but still maintains term deposits at competitive costs and terms as its main funding source. The 20 largest investors accounted for a high 44% of the total funding in 2015 (48% in 2014).

Fitch's Core Capital (FCC) ratio calculations ended up at a comfortable 15.6% in 2015 (16.9% in March 2016). The agency believes that BIB's capital base is sufficient to maintain the expansion and absorption of any potential losses.

RATING SENSITIVITIES
Positive Rating Action: Given its current business model, with the assets and liabilities concentrations inherent to its size, BIB additional rating upgrades are limited. A positive rating action depends upon reinforcement of its local franchise, increased funding, diversification, product mix and expansion of its operations, which could reduce the assets and liabilities concentration.

Negative Rating Action: On the other hand, the ratings could be negatively affected by deterioration in the bank's asset quality, with a consequent decline in its performance (operational ROAA below 1.0%) and reduction of capitalization ratios (Fitch's Core Capital below 13.0%). Further to the above specified sensitivities, BIB IDRs are sensitive to any new changes to Brazil's sovereign ratings and to its Outlook.

Fitch has affirmed the following ratings:

--Long-Term Foreign and Local Currency IDRs at 'BB'; Outlook Negative;
--Short-Term Foreign and Local Currency IDRs at 'B';
--Viability Rating at 'bb';
--Support Rating at '5';
--Support Rating Floor at 'NF'.
--Long-Term National Rating at 'AA-(bra)'; Outlook Stable;
--Short-Term National Rating at 'F1+(bra)'.

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Additional information available at 'www.fitchratings.com' or 'www.fitchratings.com.br'.

Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
National Scale Ratings Criteria (pub. 30 Oct 2013)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
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