FitchRatings

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

Fitch Ratings-Rio de Janeiro/Sao Paulo-22 May 2017: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Banco Industrial do Brasil SA (BIB) at 'BB'. The IDR Outlook is Negative. Fitch also affirmed the bank's National long-term rating at 'AA-(bra)', as well as its other ratings. The National rating Outlook is Stable.

See the full list of rating actions at the end of this release.

KEY RATING DRIVERS

The affirmation of the IDRs of the BIB follows the affirmation of the bank's Viability Rating (VR) at 'bb'. The VR considers the bank's experience and continuous focus on small- and medium-sized enterprises (SMEs), a segment in which the bank has managed to operate with relatively low losses even considering Brazil's current challenging operating environment. The ratings also take into account the institution's adequate financial performance, which is above its peers' average, notably evidenced by maintenance of the good asset quality, liquidity and capitalization throughout different cycles of the Brazilian economy. On the other hand, the ratings are limited by the BIB's size and by concentrations of assets and liabilities inherent to its business model.

The Negative Outlook for the IDRs reflects the strong influence of a more challenging operating environment on the main indicators of credit quality and profitability of medium-sized banks such as BIB.

BIB has a stable business model, characterized by the maintenance of low leverage, strictness and conservatism in terms of risk appetite, and retaining its high liquidity position. Generally, BIB avoids positioning itself as the first-choice bank of its clients, considering its size. The bank has been relatively successful in finding better structures for SME lending operations, with additions of new guarantees in order to reduce risks in a more challenging economic environment, and seized opportunities to buy its portfolio of companies with low risk profile. BIB's strategic objectives have been consistent over the years; 89% of the total portfolio is in the SME segment and only 11% in payroll loans in 2016 (14% in 2015), a segment in which it mainly operates in loan renewals, with no plans to expand the portfolio into new customers.

In Fitch's view, BIB's underwriting standards are sound, with credit the main risk to operations. BIB has an adequate risk control structure, reflected by its good asset quality indicators. Even with the more challenging economic environment, BIB has maintained credit quality indicators in the past three years. The index of loans with arrears of more than 90 days was only 2.6% in December 2016 and 1.0 % of the total in 2015 and 2014. The concentration of the bank's credit portfolio remained high, but controlled: the 20 largest clients accounted for 26% in 2016 versus around 30% of the portfolio in 2015 and 2014. Credits classified in "D-H" categories represented 1.1% in 2016 (3.4% in 2015 and 1.8% in 2014) - a better result than the average of its peers.

BIB reported more favorable results even in the face of a weak macroeconomic performance scenario. This was because financing costs improved, and competition in the SME segment was more moderate, which contributed to the generation of good spreads. Fitch expects BIB's profitability to remain adequate in the coming years.

BIB has a comfortable capital base, which is reflected in its FCC index (15.7% in 2016, 16.0% in 2015 and 16.3% in 2014). In Fitch's view, the bank has good-quality capital, basically composed of Tier I capital. With regard to funding, BIB has diversified its base since it has been able to access foreign trade lines with multilateral agencies, but still maintains term deposits as its main source of funding, with competitive costs and terms. The bank kept a comfortable liquidity position in the first quarter of 2017.

RATING SENSITIVITIES

BIB's VR and its IDRs are constrained by Brazil's operating environment; as a result, an upgrade of these ratings is very unlikely in the near future. The Outlook of the Long-Term IDRs could be revised to Stable when/if Fitch makes a similar revision to its Outlook for the banking system's operating environment, which in turn is highly influenced by the sovereign rating outlook, currently Negative.

Ratings may be negatively affected by a deterioration in the quality of the bank's assets (i.e. NPLs more than 90 days above 5.0%) and consequent decline in its performance (operating ROAA below 1.0%).

Fitch has affirmed the following ratings:
--Long-term Foreign and Local Currency IDRs at 'BB'; Negative Outlook;
--Short-term Foreign and Local Currency IDR at 'B';
--Viability Rating at 'bb';
--Support Rating at '5';
--Support Rating Floor at 'NF';
--National Long-Term Rating at 'AA-(bra)'; Stable Outlook;
--National Short-Term Rating at 'F1+ (bra)'.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
National Scale Ratings Criteria (pub. 07 Mar 2017)

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Dodd-Frank Rating Information Disclosure Form
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