

Rating Action: Moody's América Latina upgrades BBM's global scale and NSR unsecured debt ratings to Ba1/Aaa.br; negative outlook

Global Credit Research - 04 Nov 2016

Sao Paulo, November 04, 2016 -- Moody's América Latina today upgraded Banco BBM S.A.'s (BBM) long-term local currency senior unsecured debt rating to Ba1, from Ba2; and the long-term Brazilian national scale senior unsecured debt rating to Aaa.br, from Aa2.br. The outlook remains negative.

The following ratings of Banco BBM S.A. were upgraded;

- Long-term global local-currency senior unsecured debt rating: to Ba1 from Ba2, negative outlook
- Long-term Brazilian national scale senior unsecured debt rating: to Aaa.br from Aa2.br

RATINGS RATIONALE

The upgrade of BBM's ratings incorporates Bank of Communication's majority ownership stake and the strategic importance that the Brazilian subsidiary may have to its controlling bank. BoCom is expected to appoint executives to certain key positions at the bank and will closely engage in the subsidiary's strategic decision making process, including BBM's support to operations of Chinese related companies in Brazil. Moody's expects BBM's solvency and liquidity to remain broadly consistent with current levels, however, its deposit ratings now benefit from one notch of uplift, to Ba1, to incorporate the expectation of affiliate support to the Brazilian operation.

The completion of the acquisition will likely result in BBM expanding its loan book, as it takes advantage of a new potential universe of borrowers, including large corporate and Chinese companies, and a recovering credit demand, following years of very conservative risk management. We expect the bank to leverage its balance sheet, leading to capitalization ratios that will be lower than the current 14.3% tangible common equity to risk weighted assets, and the 21.1% regulatory common equity tier 1 ratio. However, its capital position is likely to accommodate at still solid levels. As the bank targets large corporations, its consistently strong asset quality may improve further, although the risk of increasing loan concentration may add volatility to asset risk and earnings.

BBM's reliance on market funds is expected to remain high, but the bank will likely have access to a wider pool of investors, and it may even benefit from new funding facilities provided by the parent. This will support BBM's expanded strategic focus, enabling the bank to appropriately manage its liquidity in response to a likely extension of its assets duration. A lower cost of funding and greater scale will benefit profitability at BBM's current operational infrastructure, but we anticipate some margin compression if new corporate lending leads to lower spreads.

WHAT COULD MAKE THE RATING GO DOWN

The negative outlook on BBM's ratings reflects the negative outlook on Brazil's sovereign ratings, and which constrain the bank's baseline credit assessment (BCA). In the event Brazil's sovereign rating and its country ceilings were to be lowered further, BBM's ratings would also decline. Also, a multi-notch downgrade on BoCom's BCA could lead to a downgrade on BBM's ratings.

A higher-than-expected deterioration of its capital position and asset risk profile, following the new strategic focus and an eventual higher balance sheet leverage, could put negative pressure on BBM's BCA and ratings.

WHAT COULD MAKE THE RATING GO UP

BBM's ratings are unlikely to be upgraded because they have a negative outlook, in line with the sovereign rating's negative outlook.

METHODOLOGIES USED

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating

Methodologies page on www.moodys.com.br 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_189530.

LAST RATING ACTION

The last rating action on Banco BBM S.A. was on 25 February 2016, when Moody's downgraded the bank's long-term local-currency senior unsecured debt rating to Ba2 from Baa3 and the long-term Brazilian national scale senior unsecured debt rating to Aa2.br from Aa1.br, following the downgrade of Brazil's government bond rating to Ba2, from Baa3. The outlook of the bank's ratings was changed to negative in line with the negative outlook on the sovereign bond rating.

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The date of the last Credit Rating Action was on 25 February 2016.

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