

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

Global Credit Research - 04 Nov 2016

New York, November 04, 2016 -- Moody's Investors Service has today upgraded Banco BBM S.A.'s (BBM) long-term global local currency deposit rating to Ba1, from Ba2; the long-term Brazilian national scale deposit rating to Aaa.br, from Aa2.br; the adjusted baseline credit assessment (BCA) to ba1, from ba2; and the long- and short-term counterparty risk assessments to Baa3(cr) and Prime 3(cr), from Ba1(cr) and 'Not Prime(cr)', respectively. At the same time, Moody's affirmed the long-term foreign currency deposit rating of Ba3; the short-term local- and foreign-currency deposit ratings of 'Not Prime' and the short-term Brazilian national scale deposit rating of BR-1. The outlook remains negative.

This rating action follows the approval by the Brazilian authorities, on 28 October 2016, of China's Bank Communication Co., Ltd.'s (BoCom, A2 negative, baa3) acquisition of an 80% stake in BBM.

Issuer: Banco BBM S.A.

..The following action has been taken:

- Adjusted Baseline Credit Assessment, Upgraded to ba1 from ba2
- Long Term Counterparty Risk Assessment, Upgraded to Baa3(cr) from Ba1(cr)
- Short Term Counterparty Risk Assessment, Upgraded to P-3(cr) from NP(cr)
-Long Term Deposit Rating Local Currency, Upgraded to Ba1 from Ba2
-National Scale Long Term Deposit Rating, Upgraded to Aaa.br from Aa2.br
-Baseline Credit Assessment, Affirmed ba2
-Short Term Deposit Ratings, Affirmed NP
-National Scale Short Term Deposit Ratings, Affirmed BR-1
-Long Term Deposit Rating Foreign Currency, Affirmed Ba3
-Outlook, Remains Negative

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. 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 & LAST RATING ACTION

The principal methodology used in these ratings was Banks published in January 2016. 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_189530.

The last rating action on Banco BBM S.A. was on 25 February 2016, when Moody's downgraded the bank's BCA to ba2, from baa3, as well as the long and short-term local currency deposit ratings to Ba2 and Not Prime, from Baa3 and Prime-3, respectively, following the downgrade of Brazil's government bond rating to Ba2, from Baa3. At the same time, Moody's downgraded the long and short-term foreign currency deposit ratings to Ba3 and Not Prime, from Baa3 and Prime-3, respectively, following the downgrade of Brazil's foreign currency deposit ceiling to Ba3, from Baa3. The long-term Brazilian national scale deposit rating was also downgraded to Aa2.br from Aa1.br, and the short-term Brazilian national scale deposit rating of BR-1 remained confirmed. The counterparty risk assessments assigned to BBM were also downgraded to Ba1(cr)/Not Prime(cr), from Baa2(cr)/Prime-2(cr). The outlook of the bank's ratings was changed to negative in line with the negative outlook on the sovereign bond rating.

Banco BBM S.A. is headquartered in Rio de Janeiro, Brazil and reported total assets of BRL4.1 billion (\$1.3 billion) and equity of BRL578.7 million (\$180.6 million) as of 30 June 2016.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in

relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Alcir Freitas
VP - Senior Credit Officer
Financial Institutions Group
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 800-891-2518
SUBSCRIBERS: 55-11-3043-7300

M. Celina Vansetti
MD - Banking
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S

PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more

than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY’S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.