MOODY'S INVESTORS SERVICE

Credit Opinion: Banco BBM S.A.

Global Credit Research - 23 Mar 2015

Rio de Janeiro, Brazil

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*Ba1/*NP
NSR Bank Deposits -Dom Curr	*Aa2.br/BR-1
Baseline Credit Assessment	**ba1
Adjusted Baseline Credit Assessment	**ba1
Senior Unsecured -Dom Curr	**Ba1
NSR Senior Unsecured -Dom Curr	**Aa2.br

* Rating(s) within this class was/were placed on review on March 17, 2015
** Placed under review for possible upgrade on March 17, 2015

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Key Indicators

Banco BBM S.A. (Consolidated Financials)[1]

	[2]**6-14**	[2]**12-13**	[3]**12-12**	[3]**12-11**	[3]**12-10**	**Avg.**
Total Assets (BRL billion)	**3.0**	**3.2**	**2.7**	**2.3**	**5.0**	[4]**-12.2**
Total Assets (USD billion)	**1.3**	**1.4**	**1.3**	**1.3**	**3.0**	[4]**-18.2**
Tangible Common Equity (BRL billion)	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	[4]**4.9**
Tangible Common Equity (USD billion)	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**	[4]**-2.3**
Problem Loans / Gross Loans (%)	**0.6**	**0.9**	**0.1**	**0.5**	**6.7**	[5]**1.8**
Tangible Common Equity / Risk Weighted Assets (%)	**18.9**	**21.3**	**19.2**	**19.9**	**18.3**	[6]**20.1**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**1.4**	**2.0**	**0.3**	**0.8**	**6.7**	[5]**2.2**
Net Interest Margin (%)	**3.8**	**5.7**	**5.2**	**2.8**	**1.9**	[5]**3.9**
PPI / Average RWA (%)	**1.9**	**3.9**	**2.3**	**1.0**	**1.5**	[6]**2.9**
Net Income / Tangible Assets (%)	**1.2**	**1.5**	**1.6**	**2.9**	**0.9**	[5]**1.6**
Cost / Income Ratio (%)	**57.9**	**46.9**	**55.4**	**78.3**	**72.0**	[5]**62.1**
Market Funds / Tangible Banking Assets (%)	**41.0**	**37.2**	**50.4**	**44.5**	**78.5**	[5]**50.3**
Liquid Banking Assets / Tangible Banking Assets (%)	**49.1**	**43.8**	**43.9**	**39.5**	**38.7**	[5]**43.0**
Gross Loans / Total Deposits (%)	**118.8**	**129.9**	**189.1**	**121.7**	**127.9**	[5]**137.5**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] Basel II; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On March 17th 2015, we placed Banco BBM's (BBM) baseline credit assessment (BCA), senior debt and deposit ratings under review for upgrade given the introduction of our new banking methodology. BBM's BCA of ba1 reflects its strong capital position and sound asset risk, partially weighted by liquidity, given its intrinsic dependence on market funds. As per our published guidance, BBM's BCA is expected to be raised by one notch, to baa3.

The deposit and senior unsecured ratings of Ba1 derives from BBM's BCA of ba1, and does not benefit from government support uplift given Moody's assessment of low probability of support, based on the bank's modest market share in the domestic deposits. As a result of the new banking methodology implementation, the deposit and senior debt ratings were also place under review for upgrade. As per our published guidance, BBM's deposit and senior debt ratings are expected to be raised by one notch, to Baa3.

BANCO BBM'S BCA IS SUPPORTED BY ITS MACRO PROFILE OF MODERATE +

Brazil's macro profile reflects its large and diversified economy, its high and rising indebtedness and the dominance of public sector banks. Notwithstanding the size of the economy, growth has fallen below potential for more than three consecutive years, weighed down by increased economic uncertainty, a slowdown in consumption and weak investment. In addition, persistently high inflation has raised questions regarding the credibility of the central bank's inflation targeting regime. Moreover, the banking system has become bifurcated, with public banks controlling a 54% share of the system's credit market as a result of years of rapid loan growth driven by government stimulus measures, while private banks remained more conservative. However, loan growth has moderated over the past year, which has alleviated pressure on banks' capital and funding following a period of robust credit market expansion. Brazil`s sizeable international reserve position, limited reliance on foreign borrowings and sound banking system support its low susceptibility to event risk.

Rating Drivers

Low historical delinquency, supported by defensive credit risk management, with most of exposures backed by collateral

Strong capitalization

Market funding dependence partially offset by sizeable cash position and disciplined asset & liability management

Profitability is subject to volatility in periods of downturn given the high relevance of loan revenues

Rating Outlook

BBM's BCA, deposit and senior debt ratings are under review for upgrade, prompted by the introduction of our new methodology. The review will focus on the assessment about the bank's asset risk strength under currently weak economic environment, the resilience of profitability and liquidity management.

What Could Change the Rating - Up

Positive pressures on the bank's BCA are related to appropriate credit and liquidity risk management under the current weak economic environment, coupled with the maintenance of strong capitalization and adequate profitability.

What Could Change the Rating - Down

Negative pressures on BBM''s BCA are related to a significant deterioration in its asset quality, resulting in a significant profitability reduction. Also, its assessment would be affected by relaxed liquidity management standards.

DETAILED RATING CONSIDERATIONS

CONSERVATIVE APPROACH IN CURRENT ECONOMIC ENVIRONMENT

We score asset risk as baa2, which reflects the reduced historical loan losses, while factoring the bank's sector concentration exposure.

Despite BBM's efforts to increase credit leverage, its loan book has remained relatively stable since 2012, given its conservative risk management standards. In 2014 the loan book amounted to R$1.5 billion, with a problem loan ratio significantly lower than its peers, at 0.22% (0.95% in 2013) and high reserve coverage, of 1357.8% (465.5% in 2H13). In addition, its loan leverage of 2.6x versus shareholders' equity further denotes the bank's currently conservative position towards credit risk.

Strong credit underwriting policies and entrenched controls have protected the bank from credit and market risk disruptions through economic cycles. Historically, BBM has had low NPL ratios, around 1%. BBM has a rigid and recognized risk management architecture and control parameters that have proven capable of supporting the bank's risk appetite as well as collateralization of the portfolio in previous bad cycles.

The bank's loan portfolio is relatively concentrated, with the 20 largest loans representing 33.2% of total loans in 2014. However, relative to shareholders' equity, the 20 largest exposures are not as relevant, equivalent to 85% of reported shareholders' equity.

HIGH CAPITAL RATIO, CONSISTING OF COMMON EQUITY TIER 1

We score capital as a2, which takes into consideration its current position.

BBM has historically preserved a comfortable capital cushion to absorb both expected and unexpected losses in the credit and trading portfolio. In 2014, BBM's total capital ratio was 20.65% (23.25% in December 2013) and consisted of high quality tangible common equity.

In addition, limited credit leverage sustains the maintenance of high capital ratios. Management indicates that a maximum credit leverage target of three times equity, with an actual leverage below target at 2.6 times equity.

LOWER PROFITABILITY AND HIGH RESERVE COVERAGE SHOW EFFECT OF WEAKER ECONOMY

We score profitability as baa3, which factors the recent trends and its intrinsic dependence on loan revenues.

In 2014 net income fell by 10% to R$ 43.6 million versus 2013, on the back of lower net interest income. On the other hand, loan loss provision expenses in 2014 were BRL 5.4 million, 88% lower than in 2013. The lower provisions were influenced by lower problem loans, and a result of the bank's conservative approach towards reserve coverage which also increased significantly in the period. Overall in 2014 net income to average total assets was steady at 1.37% versus 1.38% in 2013.

DEFENSIVE LIQUIDITY MANAGEMENT

We factor liquidity as ba3, which is positively weighted by the large amount of liquid assets, while also factoring the dependence on market funds.

BBM is a wholesale-funded institution, demonstrating management's clear and successful efforts to increase the mix and tenor. Concentration of its deposit base increased slightly with the 20 largest depositors accounting for 63.2% of total deposits in 2014, down slightly from 63.6% in 2013. However, it is mitigated by BBM's tight gap controls and conservative hedging policies, which are part of the bank's business-sustainability philosophy. The bank has been managing tenor gaps and costs by issuing local currency banknotes `letras financeiras (minimum 2-year tenor) and other asset-backed securities such as agribusiness linked notes and RMBS, taking advantage of increased demand for fixed income bonds, which in some cases have lower costs because banks are not required to place reserve requirements at the Central Bank. These local currency instruments increased to R$ 1.5 billion at 2014, from R$1.1 billion in 2013, accounting for 65% of funding mix. Also, the bank has limited reliance on foreign currency lines, representing 10.1% of total funding, mostly represented by a term line from IFC.

The bank's large position in government securities works as a cushion in times of stress together with a conservative cash policy, which is comfortable and meets the bank's 180-day horizon obligations. BBM also adopts strong rules that prioritize the duration of deposits that allow the bank to work with no liquidity gap, different from most of its peer's.

Notching Considerations

GOVERNMENT SUPPORT

The ratings of Banco BBM do not benefit from any support uplift because of the bank's modest market share in the domestic deposits.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Banco BBM S.A.

Macro Factors	
Weighted Macro Profile	**Moderate +**

Financial Profile

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	a1	←→	baa2	Sector concentration	Single name concentration
Capital						
TCE / RWA	18.9%	a1	←→	a2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.2%	baa2	←→	baa3	Earnings quality	Return on assets
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	37.2%	b1	←→	b3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.8%	a3	←→	baa1	Quality of liquid assets	
Combined Liquidity Score		ba1		ba3		

Financial Profile	**baa3**

Qualitative Adjustments	**Adjustment**
Business Diversification	0

Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Baa2

Scorecard Calculated BCA range	**baa2 - ba1**

Assigned BCA	**ba1 Possible Upgrade**

Affiliate Support notching	**0**

Adjusted BCA	**ba1 Possible Upgrade**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	--	--	--	--	Ba1 RUR Possible Upgrade	Ba1 RUR Possible Upgrade
Senior unsecured bank debt	--	--	--	--	Ba1 RUR Possible Upgrade	

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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