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CREDIT OPINION

23 March 2017

Update

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RATINGS

Banco BBM S.A.

Domicile	Rio de Janeiro, Rio de Janeiro, Brazil
Long Term Debt	Ba1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banco BBM S.A.

Update Following Change in Ratings Outlook to Stable

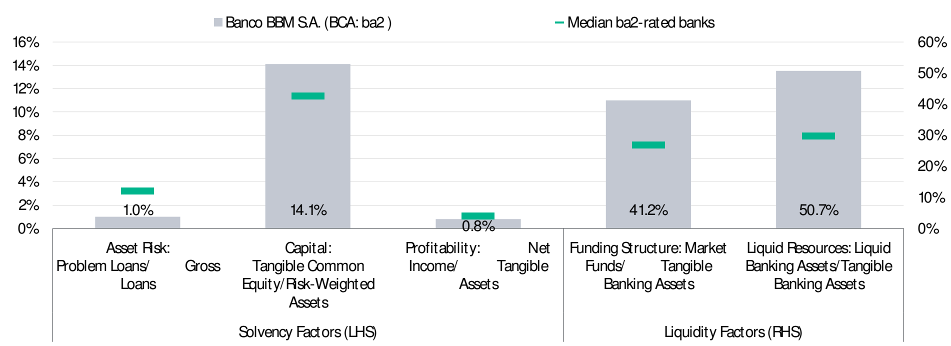
Summary Rating Rationale

BBM's baseline credit assessment of ba2 is positively weighted by its asset risk, evidenced by low historical losses, while the increasing borrower concentration arising from the higher focus on large corporations may be offset by better risk profile of customers. At the same time, profitability could be positively influenced by the lower cost of funds and higher gains of scale, which is expected to offset the potential credit cost fluctuation arising from loan book concentration. Capital is expected to accommodate at still solid levels despite the increasing anticipated leverage. 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.

BBM's long-term local currency deposit and senior unsecured debt ratings of Ba1 derive from its adjusted BCA of ba1, which incorporate a one-notch uplift from its BCA of ba2. It reflects the high level of affiliate support from China's Bank Communication Co., Ltd. (BoCom), given the majority ownership stake of 80%, acquired in November 2016, as well as the strategic importance of the subsidiary. We also assign a Ba3 long-term foreign currency deposit rating, which is constrained by the country ceiling.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» Asset risk supported by effective credit risk management, while the higher expected borrower concentration will be offset by improved risk profile

» Capital is expected to accommodate at solid levels despite increased leverage

Credit Challenges

» Market funding reliance is partially offset by sizeable cash position and by the likely access to facilities from the parent

» Profitability is subject to volatility given the intrinsic borrower concentration from its loan portfolio, while it may be offset by lower cost of funds and gains of scale

Rating Outlook

On 16 March 2017, all ratings assigned to BBM had the outlook changed to stable, from negative, following the change in the outlook on the sovereign bond rating announced on 15 March 2017. At the same time, the stable outlook reflects our expectation that the bank's solvency and liquidity will remain consistent with its current BCA following the expected changes under BoCom's controlling ownership.

Factors that Could Lead to an Upgrade

» BBM's ratings could be upgraded if the support assumptions or parent bank's BCA are raised.

» BBM's ba2 BCA is unlikely to be upgraded because it is already positioned at the same level of the sovereign bond rating.

Factors that Could Lead to a Downgrade

» BBM's ratings could be downgraded if Brazil's sovereign rating and its country ceilings are downgraded. Also, a multi-notch downgrade on BoCom's BCA could lead to a downgrade on BBM's ratings.

» BBM's ratings could also be downgraded if its BCA is lowered, which could be associated with higher-than-expected deterioration of its capital position and asset risk profile, following the new strategic focus and an eventual higher balance sheet leverage.

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 www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2
Banco BBM S.A. (Consolidated Financials) [1]

	12-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[3]	Avg.
Total Assets (BRL billion)	4.1	3.8	3.1	3.2	2.7	11.0[4]
Total Assets (USD billion)	1.3	1.0	1.2	1.4	1.3	-1.2[4]
Tangible Common Equity (BRL billion)	0.6	0.6	0.6	0.6	0.5	1.7[4]
Tangible Common Equity (USD billion)	0.2	0.1	0.2	0.2	0.3	-9.4[4]
Problem Loans / Gross Loans (%)	1.0	0.9	0.2	1.0	0.1	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.1	13.3	18.5	21.3	19.2	16.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.2	2.1	0.5	2.0	0.3	1.4[5]
Net Interest Margin (%)	3.7	3.4	3.7	5.7	5.2	4.4[5]
PPI / Average RWA (%)	1.5	1.2	1.6	3.9	2.3	2.1[6]
Net Income / Tangible Assets (%)	0.8	1.1	1.4	1.5	1.6	1.3[5]
Cost / Income Ratio (%)	60.3	66.7	61.5	46.9	55.4	58.2[5]
Market Funds / Tangible Banking Assets (%)	41.2	58.1	44.9	13.2	50.4	41.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	50.7	58.1	47.6	43.8	43.9	48.8[5]
Gross loans / Due to customers (%)	77.8	143.8	174.9	90.8	199.8	137.4[5]

[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 (%). Any interim period amounts presented are assumed to be fiscal year end amounts for calculation purposes [5] Simple average of periods presented [6] Simple average of Basel III periods presented
Source: Moody's Financial Metrics

Detailed Rating Considerations

HIGHER BORROWER CONCENTRATION WILL BE OFFSET BY IMPROVED RISK PROFILE OF CUSTOMERS

We score asset risk as baa3, which reflects its low historical problem loan ratios and reduced charge offs, supported by strict underwriting standards. Also, it factors the bank's expanded focus on large corporations, therefore increasing borrower concentration, which is expected to be offset by its improved access to customers with a better risk profile.

The completion of the acquisition by BoCom 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. 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 total credit exposure, including guarantees, amounted to BRL1.9 billion, and increased by 24% in the twelve months ended in December 2016, driven by its efforts to increase credit leverage. In December 2016 the bank maintained a low problem loan ratio of 1.0%, almost in line with the 0.9% ratio from a year before, and very high reserve coverage. Also, it has maintained its low historical losses despite the adverse credit environment, recorded by a 0.3% net charge-offs to average loans in the year ended in 2016.

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, supported by 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.

At the same time, we note that the bank's portfolio is relatively concentrated, with the 20 largest borrowers representing 39% of total exposure in December 2016, and 131% of tangible common equity.

CAPITAL WILL ACCOMMODATE AT SOLID LEVELS DESPITE HIGHER LEVERAGE

We score capital as ba2, which takes into consideration its current position and the capital consumption arising from the expected increase in its leverage.

We expect the bank to leverage its balance sheet, leading to capitalization ratios that will be lower than the current 14.1% tangible common equity to risk weighted assets, and the 21.3% regulatory common equity tier 1 ratio. However, its capital position is likely to accommodate at still solid levels.

PROFITABILITY MAY BE IMPACTED BY BORROWER CONCENTRATION WHILE POSITIVELY INFLUENCED BY LOWER COST OF FUNDS AND HIGHER SCALE

We score profitability as ba1, which factors the potential incremental pressures from higher loan loss provisions, which are expected to be counterbalanced by lower cost of funds and higher gains of scale.

Profitability is expected to be positively impacted by the lower cost of funds, and by the greater scale that the bank will gain as it grows its balance sheet size while keeping almost the same administrative infrastructure. However, profitability may be partially offset by the lower yield of lending to the new targeted companies, and by the higher risk of credit cost fluctuation from the increased borrower concentration.

In fiscal year ended in December 2016 the net income to tangible banking assets fell to 0.8%, versus 1.15% in 2015, on the back of higher credit costs. Loan loss provisions amounted to BRL 32.9 million in 2016, up from BRL 14.8 million in 2015. The higher credit costs were partially offset by the bank's ability to increase credit spreads, evidenced by the 3.7% net interest margin in 2016, versus 3.4% in 2015.

HIGH MARKET FUNDS RELIANCE MITIGATED BY DEFENSIVE LIQUIDITY MANAGEMENT

We score combined liquidity as ba3, which factors the bank's high reliance on market funding, but also offset by a large amount of liquid assets and a favorable tenor gap in its balance sheet.

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.

BBM reliance on market funds is evidenced the concentration of its deposit base, which increased slightly with the 20 largest investors accounting for 69% of total deposits in December 2016. However, it is mitigated by BBM's tight gap controls and conservative hedging policies, which are part of the bank's asset & liability management standards. 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 accounted for BRL 1.2 billion in December 2016, representing about 39% of funding mix. Also, although the bank has limited reliance on foreign currency lines, representing 22% of total funding, mainly consisted of a term line from IFC, it is expected to increase as it gains access to a wider pool of investors.

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.

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

Brazil's macro profile is Moderate, reflecting the country's large and diversified economy, the combination of ongoing economic recession, persistently high inflation and difficult political scenario increases challenges to Brazilian banks' operating environment. The pace of growth have reduced significantly in 2015 and the tightening monetary policy allowed banks to raise lending rates in 2015, which relieved part of the earnings pressure arising from asset risks. Public banks hold a 56% share of Brazil's loan market, which is reflected in the adjustment for industry structure. Capital and funding will remain adequate, and exposure to international capital markets will remain low. External vulnerability is also limited by Brazil's sizeable international reserves, which reduce the country's sensitivity to external shocks, such as sudden stops in capital flows. The change in the Macro Profile to Moderate led to changes in the macro adjusted scores of the bank's scorecard as per the bank methodology.

Notching Considerations

Given the absence in Brazil of an operational going-concern resolution regime (ORR) wherein banks are resolved by bailing-in creditors, the impact of failure on a bank's different debt classes absent government support (i.e. bail-out) is unclear as we believe that resolution procedures will be determined on an ad-hoc basis, rather than being clearly defined ex ante. The expected loss of each debt class is derived from a standardized instrument notching for all non-ORR banks.

Affiliate Support

We believe there is a high probability of affiliate support for BBM from its controlling bank, Bank of Communications Co. Ltd. (BoCom), given its 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. Therefore, in applying the joint-default analysis, BBM's adjusted BCA of ba1 has a one-notch uplift from its ba2 BCA.

Government Support

BBM's local currency deposit and senior unsecured ratings of Ba1 derive from its ba1 adjusted BCA, and do not benefit from government support uplift given the bank's modest market share of domestic deposits.

Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

BBM's CR Assessment is positioned at Baa3(cr), which is one-notch above the bank's Adjusted BCA of ba1, and, therefore, above the deposit rating of the bank, reflecting Moody's view that its probability of default is lower at the operating obligations than of deposits. BBM's CR Assessment does not benefit from government support, as the government support is not incorporated in the bank's deposit ratings.

About Moody's Bank Scorecard

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Rating Methodology and Scorecard Factors

Exhibit 3

Banco BBM S.A.

Macro Factors		
Weighted Macro Profile	**Moderate**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.0%	baa1	←→	baa3	Sector concentration	
Capital						
TCE / RWA	14.1%	baa1	↓↓	ba2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.8%	ba1	←→	ba1	Expected trend	
Combined Solvency Score		baa2		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	41.2%	b3	←→	b3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	50.7%	a3	←→	baa2	Quality of liquid assets	
Combined Liquidity Score		ba2		ba3		
Financial Profile				ba2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Ba2		
Scorecard Calculated BCA range				ba1-ba3		
Assigned BCA				ba2		
Affiliate Support notching				--		
Adjusted BCA				ba1		

Instrument class	**Loss Given Failure notching**	**Additional Notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3 (cr)	--
Deposits	0	0	ba1	0	Ba1	Ba3
Senior unsecured bank debt	0	0	ba1	0	Ba1	--

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	**Moody's Rating**
BANCO BBM S.A.	
Outlook	Stable
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aaa.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured -Dom Curr	Ba1

NSR Senior Unsecured	Aaa.br

Source: Moody's Investors Service

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