

Rating Action: Moody's takes rating actions on nine Brazilian banks

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Actions follow conclusion of review

New York, May 11, 2015 -- Moody's Investors Service has today downgraded by one notch the long-term local currency deposit ratings of five Brazilian banks, including Banco Bradesco S.A., Itau Unibanco S.A., Banco Itau BBA S.A., HSBC Bank Brasil -- Banco Multiplo S.A., and Banco Votorantim S.A. and upgraded by one notch the long-term local currency deposit rating of Banco BBM S.A., following the conclusion of the rating agency's review initiated on 17 March 2015, prompted by the publication of its new Banks methodology (see "Banks" published on 16 March 2015).

At the same time, Moody's lowered the baseline credit assessments (BCAs) of six banks, and raised the BCAs of three banks to reflect the implementation of the new bank methodology. Moody's has also assigned, where relevant, a counterparty risk (CR) assessment.

In general, the rating changes do not reflect either an improvement or a deterioration in the affected issuers' credit fundamentals. Rather, the changes are a consequence of the implementation of our new bank methodology, which highlighted these issuers as being either positive or negative outliers at their previous rating levels. Moody's considers these issuers to be more appropriately positioned at their current revised rating levels.

Moody's has withdrawn the outlooks on all junior instrument ratings covered in this press release. It has withdrawn these outlooks for its own business reasons. Please refer to Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com. Outlooks are now only assigned to long-term senior debt and deposit ratings, indicating the direction of any rating pressures.

Please refer to this link for a list of all affected ratings: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_181085

Please click this link for Moody's new Banks methodology: http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662.

RATINGS RATIONALE

CONCLUSION OF THE REVIEW

The conclusion of the reviews follows Moody's publication of its updated bank rating methodology. The revised methodology, "Banks", contains new aspects that Moody's has devised in order to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. The new aspects capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

BANCO BRADESCO AND ITAU UNIBANCO'S RATINGS LOWERED; NEGATIVE OUTLOOK REFLECTS SOVEREIGN CONSTRAINT

The downgrades of the global scale senior unsecured debt and deposit ratings of Banco Bradesco S.A. (Bradesco), Itau Unibanco S.A. (Itau Unibanco), and Banco Itau BBA S.A. (Itau BBA) to Baa2 from Baa1 followed the reduction of their BCAs to equivalent levels. Notwithstanding the downgrade of the banks' global scale ratings, their Brazilian long-term national scale deposit ratings were affirmed at Aaa.br.

These changes primarily considered the banks' adjusted capitalization levels, which compare unfavorably with global peers, notwithstanding reported capital ratios that are considerably stronger and that provide sizeable cushions relative to the minimum regulatory requirements in Brazil. Moody's ratio of Tangible Common Equity to Risk-Weighted Assets is designed to provide a globally consistent measure of capitalization and thereby enhance the comparability of banks operating under different regulatory regimes. Our ratio, which has an important weight in our new methodology, closely mirrors Basel III guidelines and is stricter in many respects than the current Brazilian standard.

While their capital scores are low by this measure, we acknowledge these banks' consistent capital replenishment ability through recurring internal revenues generation, which is supported by their high degree of revenue diversification, their dominant market positions as the two largest private sector banks in the country, and strong risk management. The banks also exhibit low asset risk supported by moderate levels of nonperforming loans and conservative reserve buffers that should help to shield their capital positions from any unexpected asset quality deterioration. The ratings are also supported by the banks' strong liquidity profiles, characterized by ample liquid resources, large core deposit bases, and well established market access.

The negative outlooks on these banks' global ratings are in line with the negative outlook on the government of Brazil's Baa2 sovereign bond rating. Both banks have high direct exposure to the country's creditworthiness through their sizeable holdings of government securities. In addition, their lending books are highly exposed to the Brazilian economy. Notwithstanding Itau Unibanco's growing presence in the rest of Latin America, and both banks' important non-credit earnings, that reduce earnings volatility during challenging risk environments, Bradesco and Itau Unibanco still have limited geographic earnings diversification. These linkages constrain the banks' BCAs to the sovereign bond rating. Thus, a downgrade of the sovereign is likely to result in a further downgrade of the banks' ratings as well.

The downgrade of Itau Unibanco Holding S.A.'s local currency issuer and senior unsecured debt ratings to Baa3, from Baa2, reflects the reduction of its subsidiaries' BCAs to baa2. Itau Unibanco Holding's ratings are notched down from the BCAs of Itau Unibanco and Itau BBA to reflect structural subordination. The holding company's Tier 2 subordinated securities remain at Baa3 to reflect our view that the higher loss severity of a subordinated bond is fully captured by a one-notch downward adjustment from the bank subsidiaries' BCA.

RATINGS OF HSBC BRAZIL AND BANCO VOTORANTIM LOWERED AS WELL; NEGATIVE OUTLOOKS CONSIDER PERFORMANCE RISKS

HSBC BRAZIL

In lowering the unsupported BCA of HSBC Bank Brasil -- Banco Multiplo S.A. (HSBC Brazil) to baa3, from baa2, Moody's notes the bank's poor profitability, low adjusted capitalization levels as measured by Moody's ratio of Tangible Common Equity to Risk-Weighted Assets, and large volume of market funding, which is mainly used to meet the Group's internal liquidity requirements. After two years of declining profits and market share, the bank reported net losses in 2014. Driven mostly by increases in interest expenses on deposits, these losses further weakened HSBC Brazil's already low capitalization. Notwithstanding these credit challenges, the bank continues to benefit from a relatively low nonperforming loan ratio, substantial loan loss reserves, and a high level of liquid resources.

Moody's also lowered HSBC Brazil's Adjusted BCA by one notch to a2 and downgraded the long-term global local currency deposit ratings to A2, which incorporates four-notches of uplift based on our assessment of very high likelihood of support from the bank's UK-based parent HSBC Holdings plc (Aa3 review for downgrade). The bank's other ratings, including its Aaa.br national scale deposit rating, its foreign currency debt and deposit ratings, and its short-term ratings, were affirmed.

The negative outlook on HSBC Brazil's ratings reflects the bank's significant challenge to revert losses and expand operations, particularly in the scenario of negative growth that Moody's anticipates for Brazil's economy in 2015.

BANCO VOTORANTIM

The reduction of Banco Votorantim's (BV) BCA to ba1 from baa3 reflects the bank's weak capitalization, high dependence on market funds, modest profitability, and relatively high asset risk, counterbalanced by a high level of liquid resources. BV's adjusted capital ratio is constrained by its large deferred tax asset position, which resulted in a tangible common equity to risk-weighted assets ratio of just 3.8% as of December 2014. However, Moody's expects the bank to continue to rationalize its balance sheet growth and retain the majority of its earnings, which will lead to gradual improvements in its capitalization.

BV's asset risk is characterized by a concentration in vehicles loans with a high but declining level of nonperforming loans as a result of the enhanced underwriting standards the bank has been applying over the last few years. After posting a net loss in 2013 driven by high loan loss provisions, the bank achieved a meaningful turnaround in its profitability in 2014, though earnings remain low. While the bank's funding profile is highly dependent on the wholesale segment and is consequently exposed to refinancing risk, its asset and liability tenors are well matched and it receives significant funding from Banco do Brasil, its 50% shareholder, which purchases

BV's consumer loan securitizations. BV's ample liquid resources are supplemented by a BRL7.0 billion committed facility provided by BB as well.

As a result of the reduction in BV's BCA, Moody's downgraded the bank's long-term global scale deposit and senior debt ratings to Baa3 from Baa2, its short-term ratings to P-3 from P-2, and its long-term Brazilian national scale deposit rating to Aa1.br from Aaa.br. The Baa3 rating incorporates one notch of uplift from the bank's ba1 BCA, which results from Moody's view of the high likelihood of support from Banco do Brasil S.A. (BCA of baa3).

BV's ba1 BCA incorporates our expectation that profitability will continue to recover, asset risk will continue to decline, and capitalization will improve. The negative outlook on BV's ratings reflects the risk that these expectations may not be fulfilled as a result of the weak economic environment.

BANCO DO BRASIL'S BCA LOWERED BUT RATINGS AFFIRMED

The reduction of Banco do Brasil's (BB) BCA to baa3 from baa2 reflects BB's weak capital position, despite its strong funding structure and sound asset risk profile, profitability, and liquidity. While BB's tangible common equity was at just 7.0% of risk-weighted assets as of December 2014, Moody's expects the bank to reduce its pace of loan growth in 2015, which will reduce pressure on its capitalization. BB's funding profile is the bank's key strength, reflecting its granular deposit funding base and stable long-term funding from government-related entities. Asset risk is supported by its historically low non-performing loan ratio and relatively high loan loss reserve coverage, but limited to the bank's rapid expansion over the last few years coupled with its significant exposure to the agricultural sector, although Moody's notes that this industry is currently experiencing some favorable momentum. Supported by its earnings diversification, with significant contributions from service fees and insurance revenues, Moody's expects the bank's profitability to stabilize after several years of declines.

Despite the change in BB's BCA, Moody's has affirmed the bank's long-term global scale debt and deposit ratings of Baa2, and its long-term Brazilian national scale deposit rating of Aaa.br. These ratings benefit from our expectation that the government of Brazil will provide financial support to the bank if necessary. However, Moody's downgraded the preferred stock non-cumulative rating to Ba3(hyb) from Ba2(hyb), as this rating is positioned at the bank's BCA minus three notches and we do not expect the government to support these specific obligations. The notching captures the risk of losses for investors from coupon suspension and principal write-down before the bank reaches the point of non-viability.

BCAS RAISED: BANCO FORD, BANCO DE BRASILIA, AND BANCO BBM

Moody's increased by one notch the standalone BCAs of Banco Ford S.A., BRB-Banco de Brasilia S.A. and Banco BBM. In addition, Moody's upgraded the debt and deposit ratings of Banco BBM S.A.. The ratings of Banco Ford and Banco de Brasilia were affirmed. The outlooks on these issuers are stable. As previously indicated, these changes do not reflect an improvement in the issuers' fundamentals. Rather, they are the result of the implementation of the new methodology, which highlighted them as being positive outliers at their previous rating levels.

BANCO FORD

The increase of Banco Ford's BCA to ba2, from ba3, reflects the bank's strong profitability and low asset risk, notwithstanding its monoline business model focused entirely on auto loans. As a captive finance operation of Ford Motor Credit Company, LLC (FMCC, Baa3 stable) in Brazil, Banco Ford originates revenues mainly from working capital loans and inventory financing to Ford dealers. The bank has reported profitability ratios consistently better than those of its peers over the last several years, supported by a lean structure and low operating expenses. Low asset risk reflects the bank's stable track record of low loan delinquencies resulting from its close oversight of the financial performance of car dealers, coupled with large volumes of collateral.

The increase of its BCA did not affect Banco Ford's Ba1 global local currency and foreign currency deposit ratings or its Aa1.br Brazilian national scale deposit ratings, which continue to benefit from a high probability of support from the bank's parent.

BANCO DE BRASILIA

The increase of the BRB-Banco de Brasilia's (BRB) BCA to ba3 from b1 reflects the bank's strong funding profile, marked by a granular deposit base and very low reliance on market funds. The bank also benefits from adequate capitalization, profitability, and liquidity. However, BRB continues to exhibit high asset risk resulting from its geographic concentration in the Federal District region, as well as weak corporate governance, as reflected in frequent changes in senior management and continued political interference. The bank's asset risk profile has

been hurt by the high pace of growth in its loan book over the last few years, with a focus on SME lending, an area in which it has little experience, which has led to a rising delinquency ratio.

Notwithstanding the change in its BCA, BRB's deposit rating was affirmed at Ba3. Consequently, the BCA and deposit rating, which no longer benefit from parental support as the Government of Brasilia is unrated, are now equivalent. Moody's also affirmed BRB's long-term Brazilian national scale deposit rating of A2.br.

BANCO BBM

The upgrade of Banco BBM's (BBM) deposit and senior debt ratings to Baa3 from Ba1 results from an equivalent improvement in its BCA. Moody's also upgraded the bank's long-term Brazilian national scale deposit rating to Aa1.br from Aa2.br. The changes reflect the bank's strong capital position and low asset risk, which are partially offset by a heavy dependence on market funding. BBM's strong asset risk profile is evidenced by its low historical non-performing loan ratios and reduced charge offs, supported by strict underwriting standards. While the bank has material exposures to both the sugar & alcohol and construction industries, these risks are mitigated by a high degree of collateralization. A strict internal cap on credit exposure sustains the bank's very strong capital ratios. Although BBM relies heavily on market funding, which exposes it to refinancing risk, it also holds a large amount of liquid assets and operates with a favorable tenor gap in its balance sheet.

ASSIGNING OF COUNTERPARTY RISK ASSESSMENTS

As part of today's actions, Moody's has assigned a Counterparty Risk Assessment (CR Assessment) to nine banks. The CR Assessment reflects an issuer's probability of defaulting on certain bank operating liabilities and other contractual commitments, but it is not a rating. The CR Assessment takes into account the issuer's standalone strength as well as the likelihood of affiliate and government support in the event of need, reflecting the anticipated seniority of these obligations in the liabilities hierarchy. The CR Assessment also incorporates other steps authorities can take to preserve the key operations of a bank should it enter a resolution.

METHODOLOGY USED & LAST RATING ACTIONS

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy 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 June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

LAST RATING ACTIONS

Moody's took its last rating action on Banco Bradesco on 17 March 2015, when the rating agency placed on review for downgrade both the global local currency deposit and senior unsecured debt ratings of Baa1. The action followed implementation of the new bank methodology on 16 March 2015. The global short-term local currency deposit and the foreign currency deposit were affirmed. The Brazilian national scale ratings remained unchanged.

Moody's took its last rating action on Itau Unibanco on 17 March 2015, when the rating agency placed both the global local currency deposit of Baa1 and senior unsecured program rating of (P)Baa1 on review for downgrade, following the implementation of the new bank methodology on 16 March 2015. The global short-term local currency deposit and the foreign currency deposit were affirmed. The Brazilian national scale ratings remained unchanged.

Moody's took its last of rating action on Banco Itau BBA on 17 March 2015, when Moody's placed on review for downgrade both the global local currency deposit of Baa1 and senior unsecured program rating of (P)Baa1, following the implementation of the new bank methodology on 16 March 2015. The global short-term local currency deposit and the foreign currency deposit were affirmed. The Brazilian national scale ratings remained unchanged.

Moody's took its last rating action on Itau Unibanco Holding on 17 March 2015, when Moody's placed on review for downgrade the local currency issuer and senior unsecured debt ratings of Baa2, following the announcement of the review of ratings assigned to its operating banks Itau Unibanco e Banco Itau BBA. The review of the ratings was triggered by the implementation of the new bank methodology on 16 March 2015. Simultaneously, the Baa3 foreign currency subordinated rating under the Cayman Islands Branch was placed on review for upgrade. The

Brazilian national scale issuer ratings were also placed on review for downgrade.

Moody's took its last rating action on Banco do Brasil on 17 March 2015, when the rating agency placed on review for downgrade the baa2 baseline credit assessment, following the implementation of the new bank methodology on 16 March 2015. At the same time, the preferred stock non-cumulative rating of Ba2(hyb) issued by Banco do Brasil through its Cayman Branch was also placed on review for downgrade. All other supported ratings remained unchanged, including the global local and foreign currency deposits as well as debt ratings assigned to both Banco do Brasil and Banco do Brasil Cayman Branch. The outlook on these ratings remained negative in line with the outlook of Brazil's government bond rating.

Moody's took its last rating action on Banco Votorantim on 17 March 2015, when the rating agency placed on review for downgrade the baa3 baseline credit assessment, as well as the supported deposit and debt ratings assigned to both Banco Votorantim and also to Banco Votorantim Nassau Branch. The long-term national scale deposit rating of Aaa.br was also placed on review for downgrade.

Moody's took its last rating action on HSBC Bank Brazil on 17 March 2015, when the rating agency placed on review for downgrade the bank's baa2 baseline credit assessment, as well as its supported global local currency deposit rating of A1. All other ratings remained unchanged.

Moody's took its last rating action on Banco BBM on 17 March 2015, when the rating agency placed on review for upgrade the bank's ba1 baseline credit assessment, as well as the long- and short-term global local and foreign currency deposit ratings of Ba1 and Not Prime, respectively. The Brazilian national scale deposit ratings were also placed on review for possible upgrade.

Moody's took its last rating action on Banco Ford on 17 March 2015, when the rating agency placed on review for upgrade the bank's ba3 baseline credit assessment. All other ratings remained unchanged.

Moody's took its last rating action on Banco de Brasilia on 17 March 2015, when the rating agency placed on review for upgrade the bank's b1 baseline credit assessment. All other ratings remained unchanged.

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