

MOODY'S INVESTORS SERVICE

Rating Action: Moody's changes to stable outlook on multiple Brazilian banks and B3 S.A.; affirms ratings

Global Credit Research - 10 Apr 2018

New York, April 10, 2018 -- Moody's Investors Service has today changed the outlook to stable, from negative, of 20 Brazilian banks and their affiliates, as well as on B3 S.A.- Brasil, Bolsa, Balcão (B3 S.A.). At the same time, Moody's affirmed various ratings and assessments assigned to the affected issuers. These actions follow the change in outlook to stable, from negative, on Brazil's Ba2 government bond rating, on 9 April 2018 ("Moody's changes outlook on Brazil's ratings to stable from negative; Ba2 ratings affirmed"). For additional information, please refer to the related announcement: https://www.moodys.com/viewresearchdoc.aspx?docid=PR_380048

Seventeen of the affected banks are rated at the same level as Brazil's sovereign rating. Moody's also revised the outlooks of Banco Santander (Brasil) S.A. and Banco BOCOM BBM S.A., which are rated above the sovereign due to the incorporation of affiliate support. The affected banks' foreign currency deposit ratings, which are capped by Brazil's Ba3 foreign currency deposit ceiling, were unaffected by today's action, as were the baseline credit assessments of Banco do Nordeste do Brasil S.A. and Caixa Económica Federal (CAIXA), both of which are below the sovereign rating.

In addition, Moody's affirmed certain ratings assigned to Banco Votorantim S.A. (BV), but its outlook remains negative.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_199003 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

RATINGS RATIONALE

The rating actions were prompted by the change in outlook to stable, from negative, on Brazil's government bond rating, which reflects reduced downside risks to growth and uncertainty regarding the country's reform momentum and has relieved the sovereign constraint on the affected banks' ratings and/or assessments. In particular, the change in the sovereign outlook considers Brazil's higher-than-expected short- and medium-term growth prospects, backed by structural reforms, which will support fiscal consolidation efforts.

Banks exhibit strong credit interlinkages with their sovereign. Banks' exposure to sovereigns can be direct, via liquidity-related exposure to central banks and government bonds, and indirect, via lending book exposures to the real economy, which is itself correlated to the government's creditworthiness.

Moody's projects average GDP growth of 2.8% in 2018-19 and 2.5% in the following years in Brazil. The near-term outlook will be supported by a pick-up in credit growth backed by an accommodative monetary policy and solid prospects in the job market. Supported by improving investor confidence, these elements will underpin a broad-based recovery in domestic demand driven by both investment and consumption, which will benefit bank's earnings prospects and relieve pressure on asset quality that accumulated during the country's recession.

Over the medium term, Brazil's growth prospects will be supported by structural reforms approved by the Temer administration since 2016, including a labor reform that added flexibility to contract negotiations between employees and employers. In addition, several measures were adopted to improve the ease of doing business with a focus on reducing red tape and regulations, while the decision to phase out subsidized lending by BNDES will improve credit allocation and contribute to the development of domestic capital markets.

The banks' stable outlooks and ratings affirmations consider that their credit fundamentals remain sound despite the significant challenges they faced during Brazil's recession. Banks are well prepared to face a new credit cycle as economic growth gains traction and credit risk declines, supported by historically low inflation and interest rates. Following two years of contraction, credit is expected to grow between 3%- 5% in 2018, with credit demand supported by household deleveraging as corporate lending remains subdued. Banks have emerged from the recession with manageable asset risks, and non-performing loan ratio remained relatively stable over the 12 months through January 2018 at approximately 3.5%, while loan loss reserves are

conservative at 6.5% of gross loans. Resumed loan growth, lower cost of risk, and continued cost cutting will help offset margin compression as new loans are originated on lower rates, also pressured by competition. At the same time, contraction of public banks' lending has reduced price distortions present in previous years.

In addition, having risen to an ample 14.5% of risk-weighted assets in 2017, the average regulatory capitalization ratio is more than adequate to support the projected gradual loan expansion over the coming quarters, as well as to accommodate the final phase-in of Basel III rules early in 2019, though the quality of capital is relatively weak compared to global banks because of high amounts of deferred tax assets. Finally, strong liquidity will limit banks' funding needs, while a largely domestic funding structure reduces their vulnerability to potential unexpected shocks coming from global markets.

WHAT COULD CHANGE THE RATING -- DOWN/UP

The ratings could face upward pressure if Brazil's government bond rating is upgraded in conjunction with continued improvement in the issuers' credit fundamentals and/or Brazil's macroeconomic environment. On the other hand, if Brazil's government bond rating again faces downward pressures, the affected ratings would be negatively pressured as well. The ratings would also face downward pressure if the issuers' intrinsic credit fundamentals deteriorate unexpectedly.

ENTITIES AFFECTED

1. Banco ABC Brasil S.A.
2. Banco Alfa de Investimento S.A.
3. Banco BOCOM BBM S.A.
4. Banco Bradesco S.A. and Banco Bradesco S.A. Grand Cayman Branch
5. Banco BTG Pactual S.A., Banco BTG Pactual S.A. Grand Cayman Branch and Banco BTG Pactual S.A. Luxembourg Branch
6. Banco Cooperativo Sicredi S.A.
7. Banco Daycoval S.A.
8. Banco do Brasil S.A. and Banco Do Brasil S.A. (Cayman)
9. Banco do Estado de Sergipe S.A.
10. Banco do Estado do Para S.A.
11. Banco do Nordeste do Brasil S.A.
12. Banco Industrial do Brasil S.A.
13. Banco Nacional de Desenv. Economica e Social -- BNDES
14. Banco PSA Finance Brasil S.A.
15. Banco Safra S.A. and Banco Safra S.A. (Cayman Branch)
16. Banco Santander (Brasil) S.A. and Banco Santander (Brasil) S.A. - Cayman Br
17. Banco Sofisa S.A.
18. Banco Votorantim S.A. and Banco Votorantim S.A. (Nassau Branch)
19. B3 S.A. -- Brasil, Bolsa, Balcão
20. Caixa Economica Federal (CAIXA)
21. Itau Unibanco Holding S.A. and Itau Unibanco Holding S.A. (Cayman Islands)
22. Itau Unibanco S.A. and Itau Unibanco S.A. (Cayman Islands)

BANCO VOTORANTIM S.A.'S RATINGS

Despite its still weak capital and earnings, the affirmation of Banco Votorantim S.A.'s ratings considers its improved financial performance in 2017; its ratio of tangible common equity to adjusted risk-weighted assets, Moody's preferred measure of capitalization, improved to 5.9%, from 4.7% in 2016, while net income increasing 37%. Moody's expects the bank's performance will continue to improve in 2018. Nevertheless, its outlook remains negative to reflect the continuing challenges the bank faces to restore its capital and earnings to levels consistent with its current rating. In order to do so, the bank will need to successfully implement a new lending strategy focused on the corporate and commercial segments as economic conditions improve and credit demand recovers.

Notwithstanding the high likelihood that BV will receive financial support from its parent, Banco do Brasil S.A. (BB, Ba2 stable / ba2), in an event of stress, its ratings could be downgraded if it is unable to improve its ratio of tangible common equity to adjusted risk-weighted assets to at least 6.0%, as well as to further enhance its profitability, with net income to tangible assets exceeding 0.75%. Also, downward pressures on its financial profile could arise from a deterioration in its funding structure, with a declining share of long-term instruments, as well as by a meaningful consumption of its liquid resources. Given the negative outlook, we do not anticipate upward pressures on BV's ratings at this time, but the outlook could be stabilized if the bank demonstrates the ability to achieve the above-mentioned metrics on a sustainable basis.

The principal methodology used in rating Banco ABC Brasil S.A., Banco Alfa de Investimento S.A., Banco BOCOM BBM S.A., Banco Bradesco S.A., Banco Bradesco S.A., Grand Cayman Branch, Banco BTG Pactual S.A., Banco BTG Pactual S.A., Grand Cayman Branch, Banco BTG Pactual S.A., Luxembourg Branch, Banco Cooperativo Sicredi S.A., Banco Daycoval S.A., Banco do Brasil S.A., Banco Do Brasil S.A. (Cayman), Banco do Estado de Sergipe S.A., Banco do Estado do Para S.A., Banco do Nordeste do Brasil S.A., Banco Industrial do Brasil S.A., Banco Nac. de Desenv. Economico e Social -- BNDES, Banco PSA Finance Brasil S.A., Banco Safra S.A., Banco Safra S.A. (Cayman Branch), Banco Santander (Brasil) S.A., Banco Santander (Brasil) S.A. - Cayman Br, Banco Sofisa S.A., Banco Votorantim S.A., Banco Votorantim S.A. (Nassau Branch), Caixa Economica Federal (CAIXA), Itau Unibanco Holding S.A., Itau Unibanco Holding S.A. (Cayman Islands), Itau Unibanco S.A., and Itau Unibanco S.A. (Cayman Islands) was Banks published in September 2017. The principal methodology used in rating B3 S.A. -- Brasil, Bolsa, Balcão was Securities Industry Service Providers published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113601 .

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