

**Rating Action: Moody's changes outlook to stable on 30 Brazilian banks and BM&FBovespa; affirms ratings**

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Global Credit Research - 16 Mar 2017

**Action follows the change of the outlook on Brazil's Ba2 sovereign rating to stable**

New York, March 16, 2017 -- Moody's Investors Service has today changed the outlooks to stable, from negative, of certain ratings of 30 Brazilian banks and their affiliates and the Brazilian stock and futures exchange BM&FBovespa S.A.. In addition, Moody's affirmed all the affected ratings. These actions follow the change in outlook to stable, from negative, on Brazil's government bond rating of Ba2, on 15 March 2017. For additional information, please refer to the related announcement: [https://www.moody.com/research/-PR\\_362466](https://www.moody.com/research/-PR_362466)

Specifically, Moody's revised the outlooks on the issuer and local currency deposit and foreign currency senior unsecured debt ratings of 16 domestically-owned banks that are constrained by Brazil's sovereign rating, as well as those of several foreign-owned banks and BM&F Bovespa that are above the sovereign. Moody's also changed the outlooks on the long-term global foreign currency deposit ratings that are capped by Brazil's Ba3 foreign currency deposit ceiling. At the same time, Moody's affirmed the ratings and baseline credit assessments of 19 Brazilian banks.

Please click on this link [http://www.moody.com/viewresearchdoc.aspx?docid=PBC\\_194864](http://www.moody.com/viewresearchdoc.aspx?docid=PBC_194864) for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

**RATINGS RATIONALE**

These rating actions were prompted by the change in outlook to stable, from negative, on Brazil's bond rating. Sovereign credit quality can directly affect the credit standing of other issuers domiciled within the country, and, more generally, tends to be associated with macroeconomic and financial market trends that affect all domestic issuers. Banks in particular exhibit strong credit interlinkages with their sovereign. As such, the change in Brazil's outlook to stable, from negative, reduced the risk of these financial institutions being downgraded in conjunction with a sovereign downgrade.

Consequently, Moody's changed the outlooks on 18 entities' local currency deposit ratings, 3 local currency issuer ratings, 28 foreign currency deposit ratings, and 9 foreign currency senior unsecured debt ratings. At the same time, Moody's affirmed all ratings whose outlooks were revised, as well as the ratings and baseline credit assessments of 19 issuers.

The affirmations consider that the credit fundamentals of the affected financial institutions remain sound despite the depth and duration of Brazil's recession. The stable outlooks consider that the underlying fundamentals of the affected issuers are stable and/or the affected ratings continue to be constrained by Brazil's sovereign rating or its country ceilings.

The impact of the recession on Brazil's banking system, and in particular the banks affected by today's action, has been contained. The system-wide non-performing loan ratio remains moderate at 3.7%, up just 90 basis points from January 2015 while loan loss reserves total 6.5% of gross loans. In addition, Brazilian banks continue to post strong earnings notwithstanding mounting credit costs, with return on assets averaging 1.1%, and capitalization has remained stable. Strong liquidity and a largely domestic funding structure reduces the vulnerability of Brazilian banks to unexpected shocks from global markets, and will support the gradual expansion of lending activities.

The recession finally appears to have bottomed out, laying the foundation for a modest recovery as business and consumer confidence improve. Nevertheless, banks will remain cautious in 2017; following a 3.5% contraction in 2016, credit markets are expected to expand by just 2% in the year. The lagging effects of the deep downturn over the past two years and the high level of unemployment will continue to pressure asset quality, but any further deterioration of the system-average problem loan ratio is expected to be limited. At the same time, profitability is expected to improve as declining domestic interest rates reduce funding costs, and credit costs begin to decrease, helping to compensate for still low business volumes.

## WHAT COULD CHANGE THE RATING -- DOWN/UP

The affected ratings could face upward pressure if Brazil's government bond rating is upgraded and its country ceilings raised. Upward pressure could also depend upon an improvement in the issuers' credit fundamentals 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.

## ENTITIES AFFECTED

1. Banco ABC Brasil S.A.
2. Banco Alfa de Investimento S.A.
3. Banco BBM S.A.
4. Banco Bradesco S.A. and Banco Bradesco S.A. Cayman Branch
5. Banco BTG Pactual S.A.
6. Banco Cetelem S.A.
7. Banco Citibank S.A.
8. Banco Cooperativo Sicredi S.A.
9. Banco Daycoval S.A.
10. Banco do Brasil S.A. and Banco Do Brasil S.A. (Cayman)
11. Banco do Estado de Sergipe S.A.
12. Banco do Estado do Para S.A.
13. Banco do Estado do Rio Grande do Sul S.A.
14. Banco do Nordeste do Brasil S.A.
15. Banco Ford S.A.
16. Banco GMAC S.A.
17. Banco Industrial do Brasil S.A.
18. Banco Mizuho do Brasil S.A.
19. BANCO NAC. DE DESENV. ECONOMICO E SOCIAL -- BNDES
20. Banco Psa Finance Brasil S.A.
21. Banco RCI Brasil S.A.
22. Banco Safra S.A. and Banco Safra S.A. (Cayman Branch)
23. Banco Santander (Brasil) S.A. and Banco Santander (Brasil) S.A. - Cayman Br
24. Banco Sofisa S.A.
25. Banco Votorantim S.A. and Banco Votorantim S.A. (Nassau Branch)
26. BM&FBovespa S.A.
27. Caixa Economica Federal (CAIXA)
28. China Construction Bank (Brasil) S.A.

29. ING Bank N.V. - Sao Paulo

30. Itau Unibanco Holding S.A. and Itau Unibanco Holding S.A. (Cayman Islands)

31. Itau Unibanco S.A. and Itau Unibanco S.A. (Cayman Branch)

## METHODOLOGIES

The principal methodology used in rating Banco ABC Brasil S.A.; Banco Alfa de Investimento S.A.; Banco BBM S.A.; Banco Bradesco S.A. and Banco Bradesco S.A. Cayman Branch; Banco BTG Pactual S.A.; Banco Cetelem S.A.; Banco Citibank S.A.; Banco Cooperativo Sicredi S.A.; Banco Daycoval S.A.; Banco do Brasil S.A. and Banco Do Brasil S.A. (Cayman); Banco do Estado de Sergipe S.A.; Banco do Estado do Para S.A.; Banco do Estado do Rio Grande do Sul S.A.; Banco do Nordeste do Brasil S.A.; Banco Ford S.A.; Banco GMAC S.A.; Banco Industrial do Brasil S.A.; Banco Mizuho do Brasil S.A.; Banco Nac. Desenv. Economico e Social -- BNDES; Banco Psa Finance Brasil S.A.; Banco RCI Brasil S.A.; Banco Safra S.A. and Banco Safra S.A. (Cayman Branch); Banco Santander (Brasil) S.A. and Banco Santander (Brasil) S.A. - Cayman Br; Banco Sofisa S.A.; Banco Votorantim S.A. and Banco Votorantim S.A. (Nassau Branch); Caixa Economica Federal (CAIXA); China Construction Bank (Brasil) S.A; ING Bank N.V. - Sao Paulo; Itau Unibanco Holding S.A. and Itau Unibanco Holding S.A. (Cayman Islands) and Itau Unibanco S.A. and Itau Unibanco S.A. Cayman Branch, was Banks published in January 2016.

The principal methodology used in rating BM&FBovespa S.A. was Securities Industry Service Providers published in February 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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## REGULATORY DISCLOSURES

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- Lead Analyst
- Methodologies
- Releasing Office
- Person Approving the Credit Rating

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