

Global Credit Research - 31 May 2017

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

New York, May 31, 2017 -- Moody's Investors Service has today changed the outlooks to negative, from stable, of certain ratings of 19 Brazilian banks and their affiliates and the Brazilian stock and futures exchange BM&FBovespa S.A.. In addition, Moody's affirmed all of the affected issuers' ratings and assessments. These actions follow the change in outlook to negative, from stable, on Brazil's Ba2 government bond rating, on 26 May 2017. For additional information, please refer to the related announcement:

https://www.moodys.com/research/Moodys-changes-outlook-on-Brazils-Ba2-issuer-rating-to-negative--PR_367210

Specifically, Moody's revised the outlooks on the issuer, local currency deposit, and/or foreign currency senior unsecured debt ratings of 15 domestically-owned banks that are at the same level as Brazil's sovereign rating, as well as those of four foreign-owned banks and BM&FBovespa that are above the sovereign rating.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_195743 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

RATINGS RATIONALE

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_195743 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

Principal Methodologies

The rating actions were prompted by the change in outlook to negative, from stable, on Brazil's sovereign bond rating, owing to the rising threat to the economic recovery and to the country's medium-term economic strength resulting from the increase in uncertainty regarding reform momentum following recent political events. Any slowdown in Brazil's tepid economic recovery, which was expected to gain traction in the second half of the year, will prolong the pressure on borrowers' repayment capacity and could lead to increasing asset risks for Brazil's banks, just as these risks looked to have peaked.

In turn, the pace of loan loss recoveries will slow as rising delinquencies require banks to make additional provisions, which put pressure on profits that were expected to start improving thanks to resumed loan growth and declining funding costs. Moreover, prospects for further reductions in funding costs could be hampered if a confidence-related shock to the exchange rate were to feed into higher inflation, limiting the Central Bank's ability to deliver further rate cuts.

Consequently, Moody's changed the outlooks on 17 entities' local currency deposit ratings, 3 local currency issuer 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 (BCAs) of 20 issuers.

The affirmations consider that notwithstanding the recent increase in downside risk, the affected bank's financial profiles deteriorated much less than might have been expected over the past several years and that their credit fundamentals have actually begun to stabilize over the past three months. Since December 2016, the system's non-performing loan ratio (NPLs) and reserve coverage have remained broadly stable at 3.8% and 6.8% of gross loans, respectively, and collateralization remains adequate. Moreover, banks continue to demonstrate a conservative risk appetite, with lending activities contracting by 2.2% in the 12 month period ended in April 2017 notwithstanding a modest recovery in new loan origination in the household segment. Nevertheless, banks continue to post stable earnings, aided by resilient fee-based income in the period and stable capitalization. Banks' liquidity remains ample, and exposure to international funding sources is low, reducing the system's vulnerability to an eventual retraction of foreign institutional investors in times of increased political uncertainties in Brazil.

WHAT COULD CHANGE THE RATING -- DOWN/UP

The affected ratings could face downward pressure if Brazil's government bond rating is downgraded and its country ceilings lowered. Downgrade pressure could also depend upon a deterioration in issuers' credit fundamentals that could arise from delay in economic recovery or a return to a negative macro environment. While there is no upward ratings pressure at the present time given the negative outlook, the outlooks could be stabilized if and when Brazil's sovereign outlook stabilizes.

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., Grand Cayman Branch
5. Banco Cooperativo Sicredi S.A.
6. Banco Daycoval S.A.
7. Banco do Brasil S.A. and Banco Do Brasil S.A. (Cayman)

8. Banco do Estado de Sergipe S.A.
9. Banco do Nordeste do Brasil S.A.
10. Banco Industrial do Brasil S.A.
11. BANCO NAC. DESENV. ECONOMICO E SOCIAL -- BNDES
12. Banco PSA Finance Brasil S.A.
13. Banco Safra S.A. and Banco Safra S.A. (Cayman Branch)
14. Banco Santander (Brasil) S.A. and Banco Santander (Brasil) S.A. - Cayman Branch
15. Banco Sofisa S.A.
16. Banco Votorantim S.A. and Banco Votorantim S.A. (Nassau Branch)
17. BM&FBovespa S.A.
18. Caixa Economica Federal (CAIXA)
19. Itau Unibanco Holding S.A. and Itau Unibanco Holding S.A. (Cayman Islands)
20. Itau Unibanco S.A. and Itau Unibanco S.A. (Cayman Islands)

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 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 Nordeste do Brasil S.A.; Banco Industrial do Brasil S.A.; Banco Nac. Desenv. Economico e Social -- BNDES; Banco PSA Finance 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 Branch); Banco Sofisa S.A.; Banco Votorantim S.A. and Banco Votorantim S.A. (Nassau Branch); Caixa Economica Federal (CAIXA); Itau Unibanco Holding S.A. and Itau Unibanco Holding S.A. (Cayman Islands); Itau Unibanco S.A. and Itau Unibanco S.A. (Cayman Islands) 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 for a copy of these methodologies.

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

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