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Research Update:

Various Rating Actions Taken On Brazilian Financial Entities On Sovereign Rating Action And Rating Methodology Changes

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Overview

- On Aug. 15, 2017, we affirmed our 'BB' long-term foreign and local currency sovereign credit ratings on Republic of Brazil and removed it from CreditWatch with negative implications, because the political landscape is somewhat more settled as President Temer survived a vote--by the Federal Electoral Court (TSE) in June and by Congress in August--related to corruption charges. Meanwhile, the economy appears to have stabilized despite fluid politics.
- The negative outlook, however, reflects ongoing political challenges and the risk of a downgrade over the next six to nine months--given Brazil's high and rising debt burden--should Congress fail to advance legislation that begins to reduce Brazil's fiscal rigidities, which hinder deficit reduction and sustained moderation in spending growth.
- As a result, we've removed ratings on 36 financial institutions from CreditWatch negative. The outlook on the entities is now negative, reflecting the negative outlook on the sovereign and the negative trend in the economic and industry risks.
- At the same time, we reviewed the long- and short-term national scale ratings on various financial institutions that were under criteria observation (UCO) following the recalibration of our national scale mapping table for Brazil, published on Aug. 14, 2017.
- Finally, we reviewed the ratings on four financial institutions that were on UCO since July 20, 2017, following changes in our risk-adjusted capital framework (RACF) criteria to evaluate the capital adequacy of bank and certain nonbank financial institutions.

Rating Action

On Aug. 16, 2017, S&P Global Ratings affirmed ratings on 36 Brazilian financial institutions and removed ratings from CreditWatch negative following the same rating action on the sovereign. We also assigned a negative outlook on these entities. At the same time, we reviewed the ratings on several financial institutions that were under criteria observation due to changes in our RACF criteria and the recalibration of national scale mapping table for Brazil.

We have resolved the CreditWatch negative on the long-term global and/or national scale issuer credit and debt ratings on the entities listed below, following the same rating action on the sovereign and after evaluating the

impact of recent political and economic developments in the Brazilian banking system. Simultaneously, we reviewed the long-term and/or short-term credit and debt national scale ratings and removed the UCO identifier, following the recalibration of our Brazilian national scale mapping table, according to our criteria "S&P Global Ratings' National And Regional Scale Mapping Tables" published on Aug. 14, 2017.

- Ativos S.A. Securitizadora de Creditos Financeiros;
- Banco ABC Brasil S.A.;
- Banco BNP Paribas Brasil S.A.;
- Banco Bradesco S.A.;
- Banco BTG Pactual S.A.;
- Banco Citibank S.A.;
- Banco Daycoval S.A.;
- Banco de Tokyo-Mitsubishi UFJ Brasil S/A;
- Banco do Brasil S.A.;
- Banco do Estado do Rio Grande do Sul S.A.;
- Banco do Nordeste do Brasil S.A.;
- Banco Intermedium S.A.;
- Banco J.P. Morgan S.A.;
- Banco Morgan Stanley S.A.;
- Banco Nacional de Desenvolvimento Economico e Social;
- Banco Ole Bonsucesso Consignado S.A.;
- Banco Pan S.A.;
- Banco Paulista S.A.;
- Banco Pine S.A.;
- Banco Safra S.A.;
- Banco Santander (Brasil) S.A.;
- Banco Toyota do Brasil S.A.;
- Banco Volkswagen S.A.;
- Banco Votorantim S.A.;
- B3 S.A - Brasil, Bolsa, Balcao;
- BNDESPar-BNDES Participacoes S.A.;
- Bradesco Capitalizacao S.A.;
- BV Leasing Arrendamento Mercantil S.A.;
- Caixa Economica Federal;
- Caruana S.A. - Sociedade de Credito, Financiamento e Investimento;
- GP Investments Ltd.;
- China Construction Bank (Brasil) Banco Multiplo S.A.;
- Haitong Banco de Investimento do Brasil S.A.;
- Itau Unibanco Holding S.A.;
- Itau Unibanco S.A.; and
- Parana Banco S.A

We removed the UCO identifier on the long-term and/or short-term credit and debt national scale ratings on the entities listed below following the recalibration of our Brazilian national scale mapping table, according to our criteria "S&P Global Ratings' National And Regional Scale Mapping Tables," published on Aug. 14, 2017. These two entities weren't on CreditWatch negative.

- Banco Fibra S.A.; and

- Banco Mercantil Do Brasil S.A.

We have also reviewed the ratings of the following financial institutions that we labelled as UCO on July 20, 2017, due to changes in our RACF criteria. As a result, we have removed the UCO identifier and revised the ratings on those entities based on the application of the new criteria.

- Banco Pan S.A.;
- Banco Paulista S.A.;
- Banco Intermedium S.A.; and
- Parana Banco S.A.

Rationale

The rating action reflects our view that the political landscape is somewhat more settled in Brazil, since we placed Brazil's ratings on CreditWatch with Negative implications in May, as President Temer survived a vote--by the Federal Electoral Court (TSE) in June and by Congress in August--related to corruption charges. Meanwhile, the economy appears to have stabilized despite fluid politics, Congress passed a labor reform in July, and the government remains committed to advancing some pension reform, containing expenditure growth to minimize deviation from its primary fiscal targets, and advancing its active microeconomic reform agenda.

Banking Industry Country Risk Assessment

Our negative economic risk trend on the banking industry reflects the risk that credit losses could increase from the already high levels if feeble economic recovery prevents borrowers from recover their business viability. Brazil's economic risk reflects its low GDP per capita, political uncertainty, and economic slump. Brazilian banks are going through a correction phase, and house prices and lending are contracting in real terms. We consider the correction phase to have a severe impact on Brazilian banks as a result of a prolonged recession, and we don't expect conditions to improve significantly in 2017. We believe that continued economic stagnation and stringent conditions for credit constrain a recovery of the corporate sector, which is reflected in higher nonperforming loans (NPLs) and credit losses. Moreover, the rising level of renegotiated and restructured loans exacerbates the risk of a sharp uptick in credit losses that are not fully covered by provisions.

Our industry risk trend is negative, reflecting the risk of corruption investigations of senior management of several large banks or significant debtors. Our industry risk assessment for Brazil reflects the large presence of government-owned banks, which has caused significant distortions in the financial system over the past few years, weakening competitive dynamics. However, the government's fiscal position limits its capacity to continue injecting capital in these banks, limiting their capacity to sustain its lending growth at the same pace, which should reduce banking system's distortions. The country's financial regulation has been improving thanks to its extensive coverage and closer alignment with international standards. The Brazilian banking system also has an adequate funding mix with a stable core

customer deposit base and satisfactory access to domestic and international capital markets. In addition, banks' dependence on external funding is fairly low: 7.6% of the system's total liabilities as of the end of 2016. In addition, although the banking sector's profitability remains relatively high despite the economic malaise, this is due to high net interest margins and business diversification, which encompasses bank assurance and asset management. Banks' profitability, measured by return on equity, has averaged at 15.3% for the past three years (about 13.5% in 2016), below the 18.9% average in 2007-2011. Profitability started to decrease when government-owned banks began to gain market share through lower interest rates. However, the profitability drop is currently due to increasing provisions, because margins in 2016 have increased as a result of lower competition from government-owned banks. Banks have taken a conservative approach towards credit and have been tightening their underwriting practices since 2015, shifting to safer products such as payroll deductible loans and mortgages. We expect profitability to remain subdued in 2017 but to improve in 2018 as economic conditions improve.

Outlook

The negative outlook on the financial institutions that have their rating limited by that of the sovereign reflects our view that there's at least a one-in-three likelihood that we could lower the ratings on Brazil over the coming six to nine months. In addition, the negative outlook on all other entities reflects the negative trend in the economic and industry risks in our banking industry country risk assessment (BICRA) of Brazil. A revision of the BICRA to a weaker category would result in a downgrade of the anchor, the starting point of the ratings on all entities operating in Brazil, to 'bb' from 'bb+'. Moreover, our capital and earnings assessment on all financial institutions operating in Brazil could drop to a weaker category stemming from higher risk weights if the economic risk in Brazil rises. This could cause the banks' stand-alone credit profiles to drop.

The ratings on the entities that have their rating limited by that of the sovereign could stabilize over the coming six to nine months if we revised the outlook on the sovereign to stable. In addition, the outlook on all other entities could move to stable if we revise the trend in the economic and industry risks in our BICRA of Brazil to stable.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And

Assumptions, March 25, 2015

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For Financial Market Infrastructure Companies, Dec. 9, 2014
- Criteria - Financial Institutions - General: Key Credit Factors For Asset Managers, Dec. 9, 2014
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ativos S.A. Securitizadora de Creditos Financeiros

Issuer credit rating

Brazil national scale

brAA-/Negative/-- brAA-/Watch Neg/--

Banco ABC Brasil S.A.

Issuer credit rating

Global scale

BB/Negative/B BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Banco BNP Paribas Brasil S.A.

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Issuer credit rating

Brazil national scale

brAA-/Negative/-- brAA-/Watch Neg/--

Banco Bradesco S.A.

Issuer credit rating

Global scale BB/Negative/B

BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Senior unsecured BB

BB/Watch Neg

Banco BTG Pactual S.A.

Issuer credit rating

Global scale BB-/Negative/B

BB-/Watch Neg/B

Brazil national scale

brA+/Negative/brA-1 brA-/Watch Neg/brA-2

Banco Citibank S.A.

Issuer credit rating

Global scale BB/Negative/B

BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Banco Daycoval S.A.

Issuer credit rating

Global scale BB-/Negative/B

BB-/Watch Neg/B

Brazil national scale

brA+/Negative/brA-1 brA/Watch Neg/brA-2

Senior unsecured

BB-

BB-/Watch Neg

Banco de Tokyo-Mitsubishi UFJ Brasil S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Banco do Brasil S.A

Issuer credit rating

Global scale

Local currency

BB/Negative/--

BB/Watch Neg/--

Foreign currency

BB/Negative/B

BB/Watch Neg/B

Senior unsecured BB

BB/Watch Neg

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Subordinated	B	B/Watch Neg
Junior subordinated	B-	B-/Watch Neg

Banco do Estado do Rio Grande do Sul S.A.
 Issuer credit rating

Global scale	BB-/Negative/--	BB-/Watch Neg/--
Brazil national scale	brA+/Negative/--	brA-/Watch Neg/--

Banco do Nordeste do Brasil S.A.
 Issuer credit rating

Global scale	BB/Negative/B	BB/Watch Neg/B
Brazil national scale	brAA-/Negative/--	brAA-/Watch Neg/--

Senior unsecured	BB	BB/Watch Neg
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Banco Fibra S.A.
 Issuer credit rating

Global Scale	B-/Negative/B	B-/Negative/B
Brazil National Scale	brB+/Negative/brB	brB-/Negative/brC

Banco Intermedium S.A.
 Issuer credit rating

Brazil national scale	brBBB-/Negative/--	brBBB-/Watch Neg/--
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Banco J.P. Morgan S.A.
 Issuer credit rating

Brazil national scale	brAA-/Negative/brA-1+	brAA-/Watch Neg/brA-1
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Banco Mercantil Do Brasil S.A.
 Issuer credit rating

Brazil National Scale	brB+/Negative/--	brB/Negative/--
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Banco Morgan Stanley S.A.
 Issuer credit rating

Brazil national scale		
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brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Banco Nacional de Desenvolvimento Economico e Social

Issuer credit rating

Global scale BB/Negative/-- BB/Watch Neg/--

Brazil national scale

brAA-/Negative/-- brAA-/Watch Neg/--

Senior unsecured

BB BB/Watch Neg

Banco Ole Bonsucesso Consignado S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Banco Pan S.A.

Issuer credit rating

Global scale B+/Negative/B B+/Watch Neg/B

Brazil national scale

brBBB+/Negative/brA-2 brBBB-/Watch Neg/brA-3

Junior subordinated

CCC CCC/Watch Neg

Banco Paulista S.A.

Issuer credit rating

Brazil national scale

brBBB+/Negative/brA-2 brBBB-/Watch Neg/brA-3

Banco Pine S.A.

Issuer credit rating

Global scale B+/Negative/B B+/Watch Neg/B

Brazil national scale

brBBB+/Negative/-- brBBB-/Watch Neg/--

Banco Safra S.A.

Issuer credit rating

Global scale BB/Negative/B BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Senior unsecured

BB BB/Watch Neg

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Banco Santander (Brasil) S.A.

Issuer credit rating

Global scale	BB/Negative/B	BB/Watch Neg/B
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Brazil national scale

brAA-/Negative/brA-1+	brAA-/Watch Neg/brA-1
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Subordinated

B	B/Watch Neg
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Junior subordinated

CCC+	CCC+/Watch Neg
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Banco Toyota do Brasil S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/--	brAA-/Watch Neg/--
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Banco Volkswagen S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/--	brAA-/Watch Neg/--
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Banco Votorantim S.A.

Issuer credit rating

Global scale	BB/Negative/B	BB/Watch Neg/B
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Brazil national scale

brAA-/Negative/brA-1+	brA+/Watch Neg/brA-1
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B3 S.A. - Brasil, Bolsa, Balcao

Issuer credit rating

Global scale	BB/Negative/B	BB/Watch Neg/B
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Senior unsecured

BB	BB/Watch Neg
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BNDESPar-BNDES Participacoes S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/--	brAA-/Watch Neg/--
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Bradesco Capitalizacao S.A.

Issuer credit rating

Brazil national scale

brAA-/Negative/--	brAA-/Watch Neg/--
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BV Leasing Arrendamento Mercantil S.A.

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Issuer credit rating

Brazil national scale

brAA-/Negative/brA-1+ brA+/Watch Neg/brA-1

Subordinated

brA brA-/Watch Neg

Caixa Economica Federal

Issuer credit rating

Global scale BB/Negative/B BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Senior unsecured

BB BB/Watch Neg

Caruana S.A. - Sociedade de Credito, Financiamento e Investimento

Issuer credit rating

Brazil national scale

brBB+/Negative/brB brBB-/Watch Neg/brB

China Construction Bank (Brasil) Banco Multiplo S.A.

Issuer credit rating

Global scale BB/Negative/B BB/Watch Neg/B

Brazil national scale

brAA-/Negative/-- brAA-/Watch Neg/--

GP Investments Ltd.

Issuer credit rating

Global scale BB/Negative/-- BB/Watch Neg/--

Senior unsecured

BB BB/Watch Neg

Haitong Banco de Investimento do Brasil S.A.

Issuer credit rating

Global scale BB-/Negative/B BB-/Negative/B

Brazil national scale

brA+/Negative/brA-1 brA/Watch Neg/brA-2

Itau Unibanco Holding S.A.

Issuer credit rating

Global scale BB/Negative/B BB/Watch Neg/B

Brazil national scale

brAA-/Negative/brA-1+ brAA-/Watch Neg/brA-1

Senior unsecured

BB BB/Watch Neg

Itau Unibanco S.A.

Issuer credit rating

Global scale	BB/Negative/B	BB/Watch Neg/B
Brazil national scale	brAA-/Negative/brA-1+	brAA-/Watch Neg/brA-1

Parana Banco S.A

Issuer credit rating

Global scale	BB-/Negative/B	BB-/Watch Neg/B
Brazil national scale	brA+/Negative/--	brA/Watch Neg/--

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