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Research Update:

Various Rating Actions Taken On Brazilian Financial Entities After Sovereign's Downgrade, BICRA Remains At Group '6'

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Overview

- On Jan. 11, 2018, we lowered our global long-term foreign and local currency credit ratings on the Federative Republic of Brazil to 'BB-' from 'BB' because Brazil has made slower-than-expected progress in putting in place meaningful legislation to correct structural fiscal slippage and rising debt levels on a timely basis. The global scale rating is now stable. At the same time, we revised our national scale rating outlook on the sovereign to stable from negative and affirmed our 'brAA-' long-term national scale rating.
- As a result, we took various rating actions on 29 Brazilian financial institutions and insurance companies that are rated at the sovereign level, mirroring the same rating action on Brazil.
- At the same time, Brazil's Banking Industry Country Risk Assessment (BICRA) remains at group '6'. We're maintaining our economic risk score at '7' and our industry risk score at '5'. We're also maintaining the banking economic and industry risk trends as negative.

Rating Action

On Jan. 12, 2018, S&P Global Ratings took various rating actions on 29 Brazilian financial institutions and insurance companies that are rated at the sovereign level, mirroring the same rating action on Brazil. At the same time, Brazil's BICRA remains at group '6', reflecting an economic risk score of '7' and industry risk score of '5'. The banking economic and industry risk trends remained negative.

We have lowered the long-term global scale ratings on 15 financial institutions to 'BB-' from 'BB'. The outlook on these ratings is now stable. In addition, we affirmed our 'brAA-' long-term ratings for entities rated on the national scale, and revised the outlook on these ratings to stable from negative.

- Banco do Brasil S.A.;
- Banco Bradesco S.A.;
- Banco Citibank S.A.;
- Itau Unibanco Holding S.A.;
- Itau Unibanco S.A.;
- Banco ABC Brasil S.A.;
- Banco do Nordeste do Brasil S.A. (BNB);
- Banco Santander (Brasil) S.A.;

- China Construction Bank (Brasil) Banco Multiplo S.A.;
- Banco Votorantim S.A.;
- Banco Safra S.A.;
- Banco Nacional de Desenvolvimento Economico e Social;
- Caixa Economica Federal;
- B3 S.A - Brasil, Bolsa, Balcao; and
- GP Investments Ltd.

In addition, we revised our national scale rating outlook on 14 entities to stable from negative and affirmed our 'brAA-' long-term national scale rating on them.

- Ativos S.A. Securitizadora de Creditos Financeiros;
- Banco de Tokyo-Mitsubishi UFJ Brasil S/A;
- Banco Morgan Stanley S.A.;
- Banco J.P. Morgan S.A.;
- Banco Toyota do Brasil S.A.;
- Banco BNP Paribas Brasil S.A.;
- Banco Volkswagen S.A.;
- Banco Ole Bonsucesso Consignado S.A.;
- BNDESPar-BNDES Participacoes S.A.;
- BV Leasing Arrendamento Mercantil S.A.;
- Bradesco Capitalizacao S.A.;
- Bradesco Seguros S.A.;
- Austral Seguradora S.A.; and
- Austral Resseguradora S.A.

Rationale

The rating action on the sovereign reflects the weakening of our institutional assessment of Brazil due to slower-than-expected progress and lower support by the country's political class to put in place meaningful legislation to correct structural fiscal slippage on a timely basis. Recent political developments also foreshadow the risk of greater policy uncertainty after national elections later this year.

While the government has advanced many microeconomic reforms, it has been unsuccessful thus far in garnering broad congressional support to strengthen the fiscal trajectory in order to facilitate adherence to Brazil's constitutional spending cap. In addition, at times there have been mixed signals or actions that further complicate fiscal correction or policy execution, including measures for the 2018 budget, across branches of government. Taken together, this highlights our view that policy commitment and political responsiveness have diminished relative to our prior expectations.

For more details, please refer to "Brazil Long-Term Ratings Lowered To 'BB-' On Less Timely And Effective Policymaking; Outlook Is Stable," published on Jan. 11, 2018.

Banking Industry Country Risk Assessment

We continue to view the Brazilian banking sector's economic risk trend as negative. We expect domestic economy to continue recovering during the next two years, supporting the banks' efforts to improve or limit the deterioration of their asset quality metrics. However, we believe there's still a significant risk that a portion of the large amount of renegotiated loans will become delinquent, raising the already very high credit losses. Our negative trend on the industry risk reflects the persistent risk that corruption investigations could weaken credit quality of a number of banks.

Brazil's economic risk reflects its low GDP per capita and political and economic challenges, which remain considerable. Domestic banks are going through a correction phase, and although lending is starting to grow, it's at a very low pace, and house prices continue contracting in real terms. We expect the economic recovery in Brazil that started in 2017 to gather momentum in the next two years, with annual real GDP growth of 2.2%-2.4%. This, together with the stabilization of unemployment and inflation, low interest rates, and the banks' focus on healthier credit portfolios, will bring some relief to lenders' currently weak asset quality metrics. We estimate that system-wide nonperforming loans reached about 3.6% of total loans, while charge-offs about 3.7% in 2017. We expect both ratios to remain fairly stable at about 3.5% in 2018. In addition, we believe that small and mid-size banks, which concentrate on lending to small- and mid-size enterprises (SMEs) and have higher exposure to cyclical sectors, will continue suffering higher credit losses, further pressuring their capital and risk positions. Brazilian banks still face high economic risks given the elevated levels of renegotiated loans that are more susceptible to a weaker-than-expected economic scenario driven by the political uncertainties that will remain in 2018, especially considering the upcoming presidential elections in October.

Our industry risk assessment for Brazil reflects the country's well developed financial regulation, broadly in line with international standards, and the regulator's good track record, which has helped the financial system to withstand the economic downturn. The latter stems from the government's effective measures in containing potential problems. These strengths are moderated by the large presence of government-owned banks, which has caused significant distortions in the financial system for the past few years, weakening competitive dynamics. However, given capital constraints on these banks and the change in government, they have been lowering their market share, which could reduce distortions in the long run. On the other hand, the Brazilian banking system 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--at 6.3% of the system's total liabilities as of the end of September 2017.

Outlook

The stable outlook on 29 financial institutions and insurance companies reflects that on the Brazilian sovereign rating, which currently limits the ratings on these entities given their large exposure to sovereign risk. Therefore, we expect the ratings on those entities to move in tandem with the sovereign ratings. In our view, there's a less than one-in-three likelihood that we could raise or lower the ratings on Brazil over the coming year. This reflects Brazil's comparative external and monetary policy strengths that help offset significant fiscal weakness, an economy with growth prospects lower than peers, and our view that effectiveness of policymaking across branches of government has weakened.

Downside scenario

We could lower the ratings on these financial institutions and insurance companies following the same rating action on the sovereign.

Upside scenario

Similarly, we could raise the ratings on those entities following an upgrade of Brazil.

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
- Criteria - Financial Institutions - General: 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
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014

- Criteria - Insurance - Specialty: Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model, Dec. 6, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Sovereign Government Rating Methodology And Assumptions, June 24, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- S&P To Publish Economic And Industry Risk Trends For Banks, March 12, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Analytical Linkages Between Sovereign And Bank Ratings, Dec. 6, 2011
- 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
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Rating List

	To	From
Ativos S.A. Securitizadora de Creditos Financeiros		
Issuer credit rating		
Brazil national scale	brAA-/Stable/--	brAA-/Negative/--
Banco ABC Brasil S.A.		
Issuer credit rating		
Global scale	BB-/Stable/B	BB/Negative/B
Brazil national scale	brAA-/Stable/brA-1+	brAA-/Negative/brA-1+
Banco BNP Paribas Brasil S.A.		
Issuer credit rating		
Brazil national scale	brAA-/Stable/--	brAA-/Negative/--

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Banco Bradesco S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Senior unsecured

BB-

BB

Banco Citibank S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Banco de Tokyo-Mitsubishi UFJ Brasil S/A

Issuer credit rating

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Banco do Brasil S.A.

Issuer credit rating

Global scale

Local currency

BB-/Stable/--

BB/Negative/--

Foreign currency

BB-/Stable/B

BB/Negative/B

Senior unsecured

BB-

BB

Subordinated

B-

B

Junior subordinated

CCC+

B-

Banco do Nordeste do Brasil S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Senior unsecured

BB-

BB

Banco J.P. Morgan S.A.

Issuer credit rating
 Brazil national scale
 brAA-/Stable/brA-1+ brAA-/Negative/brA-1+

Banco Morgan Stanley S.A.
 Issuer credit rating
 Brazil national scale
 brAA-/Stable/brA-1+ brAA-/Negative/brA-1+

Banco Nacional de Desenvolvimento Economico e Social
 Issuer credit rating
 Global scale
 BB-/Stable/-- BB/Negative/--
 Brazil national scale
 brAA-/Stable/-- brAA-/Negative/--

Senior unsecured
 BB- BB

Banco Ole Bonsucesso Consignado S.A.
 Issuer credit rating
 Brazil national scale
 brAA-/Stable/brA-1+ brAA-/Negative/brA-1+

Banco Safra S.A.
 Issuer credit rating
 Global scale
 BB-/Stable/B BB/Negative/B
 Brazil national scale
 brAA-/Stable/brA-1+ brAA-/Negative/brA-1+

Senior unsecured
 BB- BB

Banco Santander (Brasil) S.A.
 Issuer credit rating
 Global scale
 BB-/Stable/B BB/Negative/B
 Brazil national scale
 brAA-/Stable/brA-1+ brAA-/Negative/brA-1+

Subordinated
 B- B

Junior subordinated
 CCC CCC+

Banco Toyota do Brasil S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Banco Volkswagen S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Banco Votorantim S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Junior subordinated

CCC

CCC+

BNDESPar-BNDES Participacoes S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Bradesco Capitalizacao S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

BV Leasing Arrendamento Mercantil S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Subordinated

brA

brA

Caixa Economica Federal

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Senior unsecured

BB-

BB

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

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Itau Unibanco Holding S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Senior unsecured

BB-

BB

Itau Unibanco S.A.

Issuer credit rating

Global scale

BB-/Stable/B

BB/Negative/B

Brazil national scale

brAA-/Stable/brA-1+

brAA-/Negative/brA-1+

Bradesco Seguros S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Financial Strength Rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Austral Resseguradora S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

Austral Seguradora S.A.

Issuer credit rating

Brazil national scale

brAA-/Stable/--

brAA-/Negative/--

B3 S.A - Brasil, Bolsa, Balcao

Issuer credit rating

Global scale

	BB-/Stable/B	BB/Negative/B
Senior unsecured	BB-	BB

GP Investments Ltd.

Issuer credit rating

	BB-/Stable/--	BB/Negative/--
Senior unsecured	BB-	BB

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