

# Brazilian Banking Sector Challenges and Outlook

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# Credit outlook

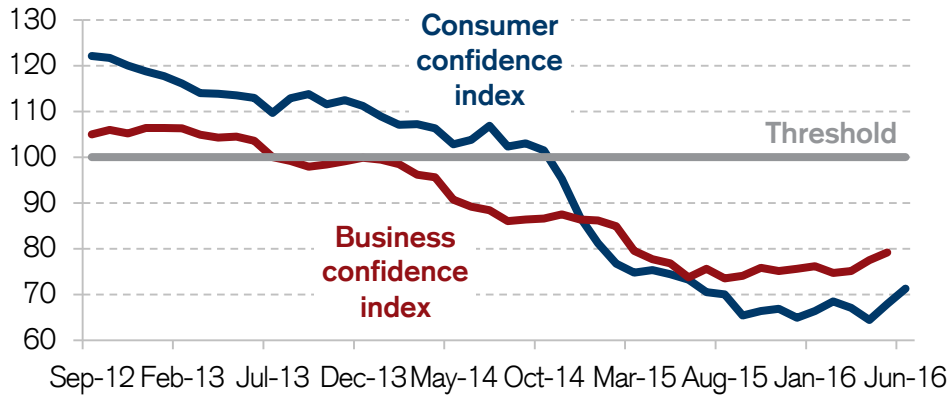
Weak credit environment ahead





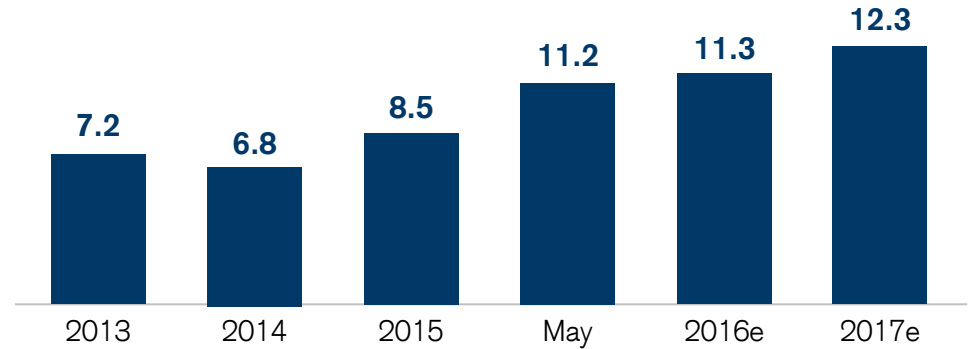
# Brazil getting closer to the economic trough; but recovery should be gradual

### Consumer and business confidence indices (seasonally adjusted)

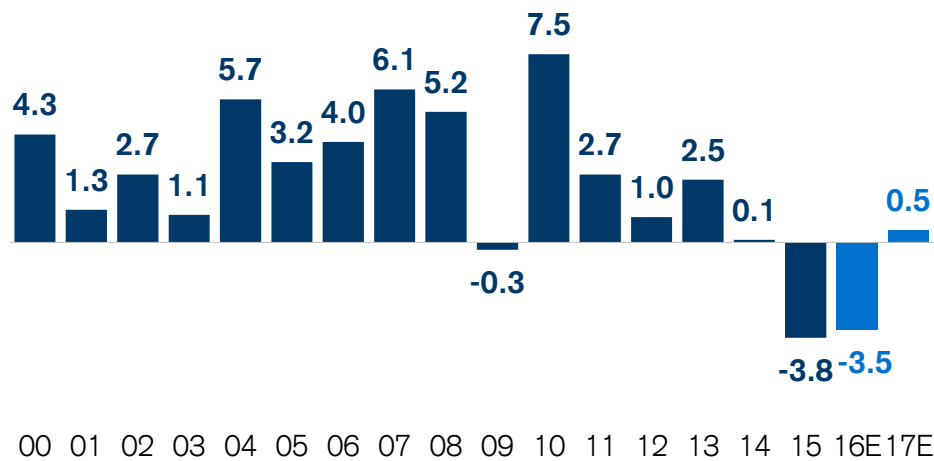


### Projections of main variables of labor market (%)

#### Unemployment rate according to PNADC (% , annual average)



### Real GDP growth (%)

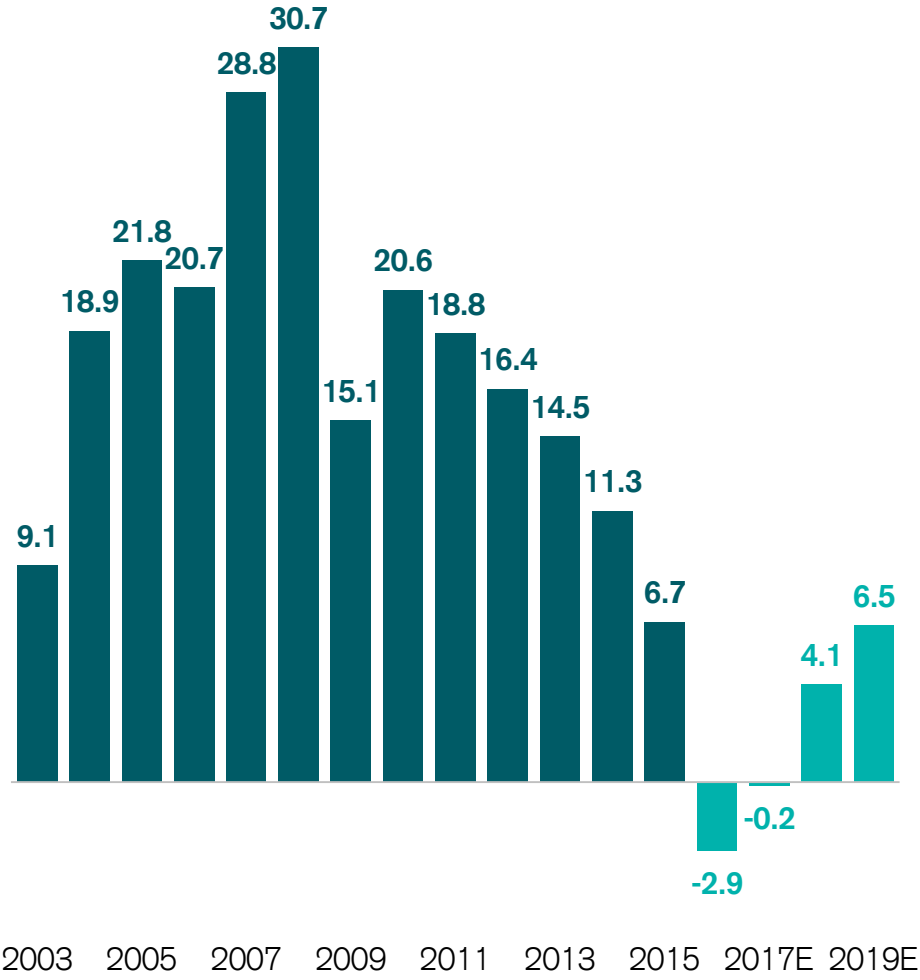


### Growth in labor market variables according to PNADC (%, year-on-year change)

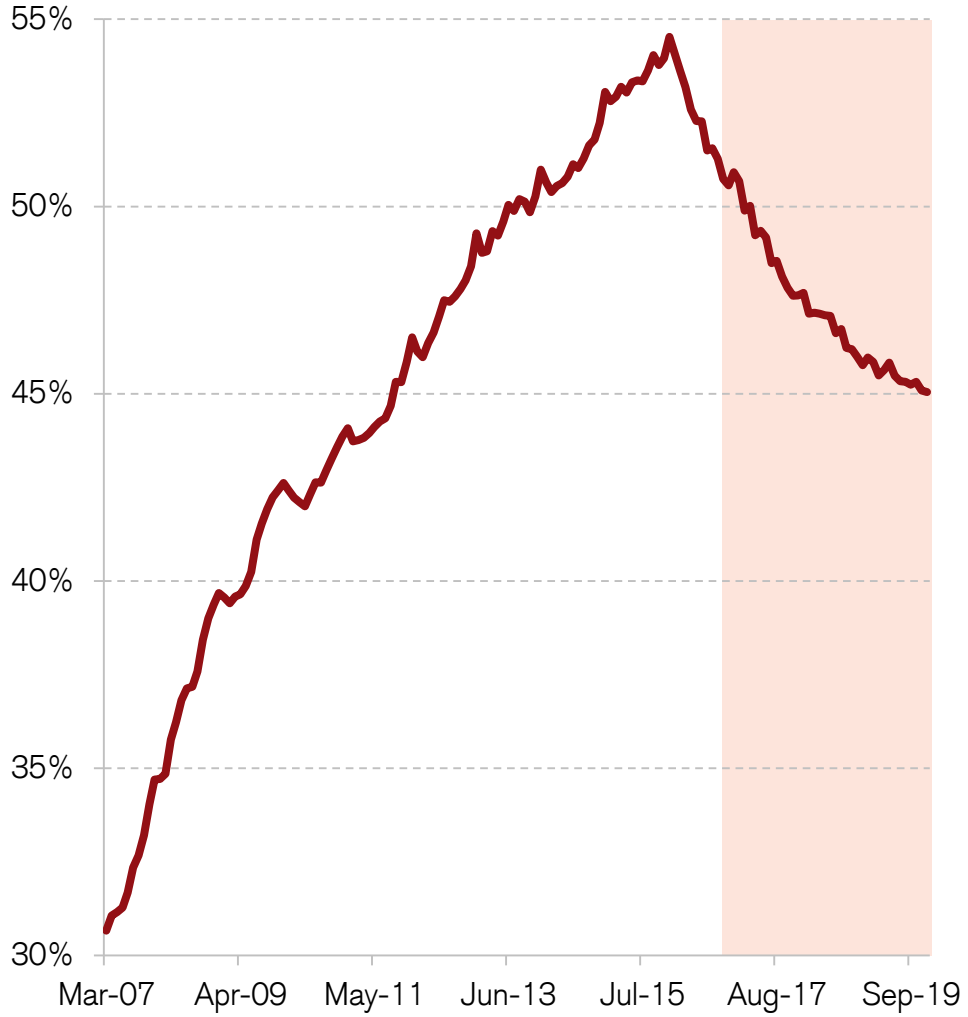
	Wage bill	Real wages	Working population	Workforce	Working-age population
2013	4.8	3.3	1.4	1.2	1.4
2014	3.4	1.1	1.5	1.1	1.6
2015	0.0	-0.3	0.0	1.9	1.4
May	-3.3	-0.2	-1.4	2.0	1.3
2016e	-4.5	-3.0	-1.5	1.6	1.0
2017e	-0.5	-0.5	0.0	1.2	0.9

# Long deleveraging process to limit credit growth

**System's loan growth**  
(% y/y)



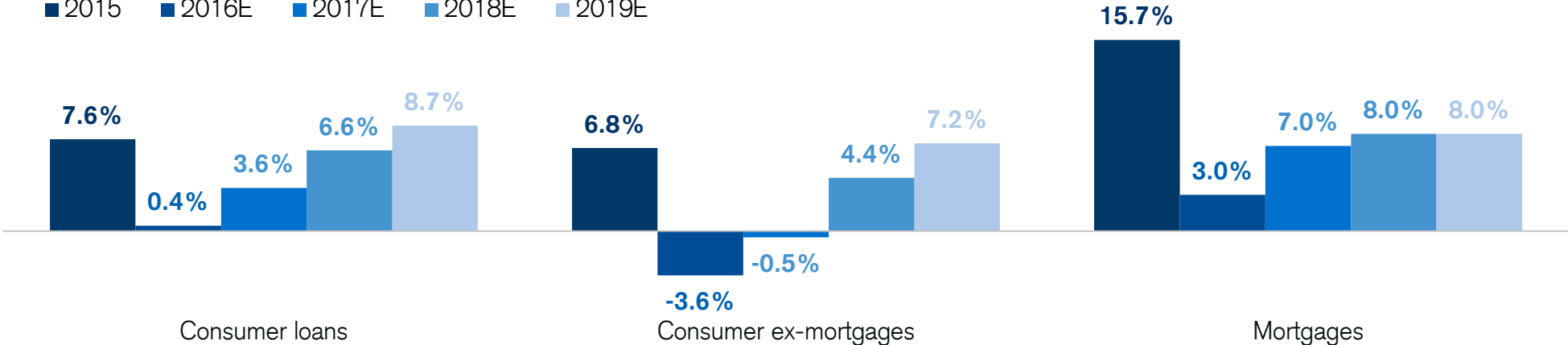
**Bank credit to GDP**  
(%)



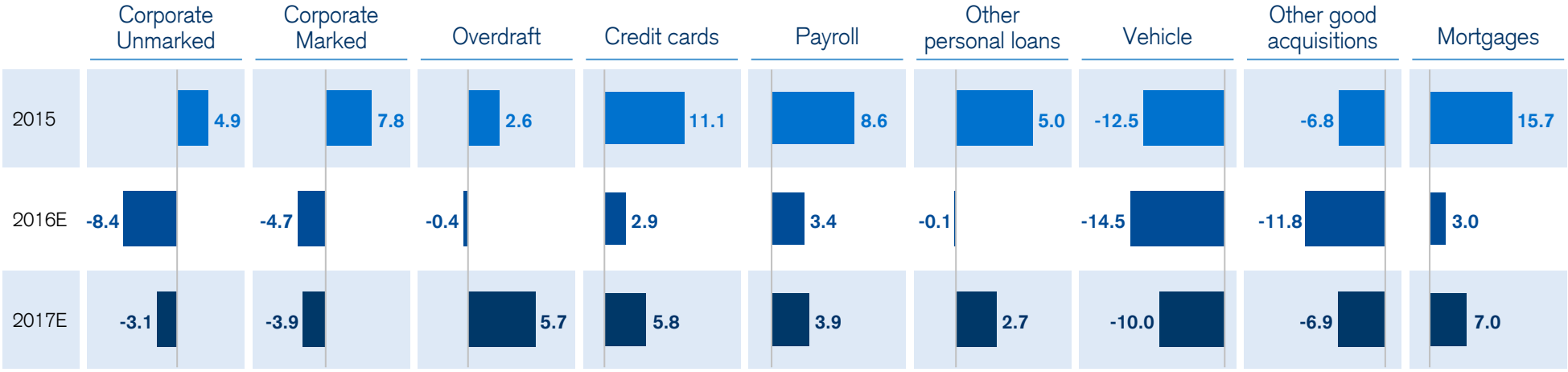
# We expect nominal decline in corporate and consumer loans in 2016 and 2017

### Consumer loan portfolio growth (% y/y)

■ 2015 ■ 2016E ■ 2017E ■ 2018E ■ 2019E



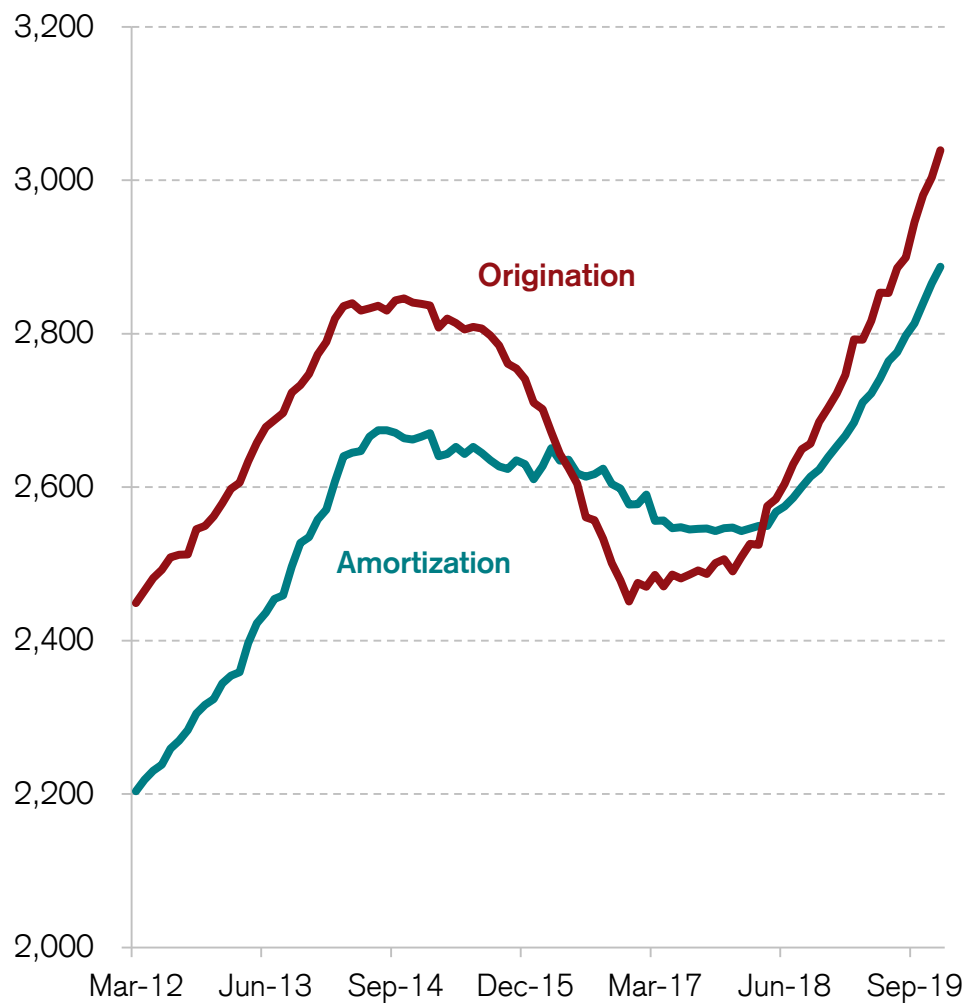
### Loan portfolio growth per segment (% y/y)



# A close look at credit originations sheds a light on the credit pick up debate (1)

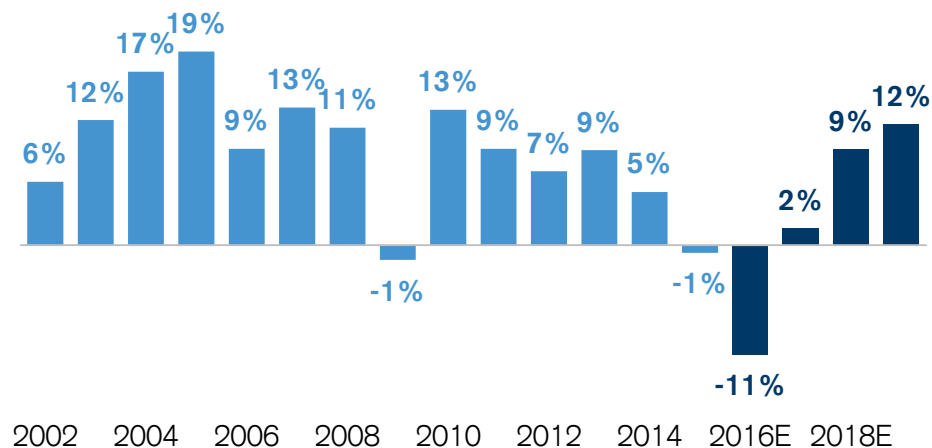
## LTM credit originations and amortizations

R\$ billion



## Growth in credit originations for the system

/y change



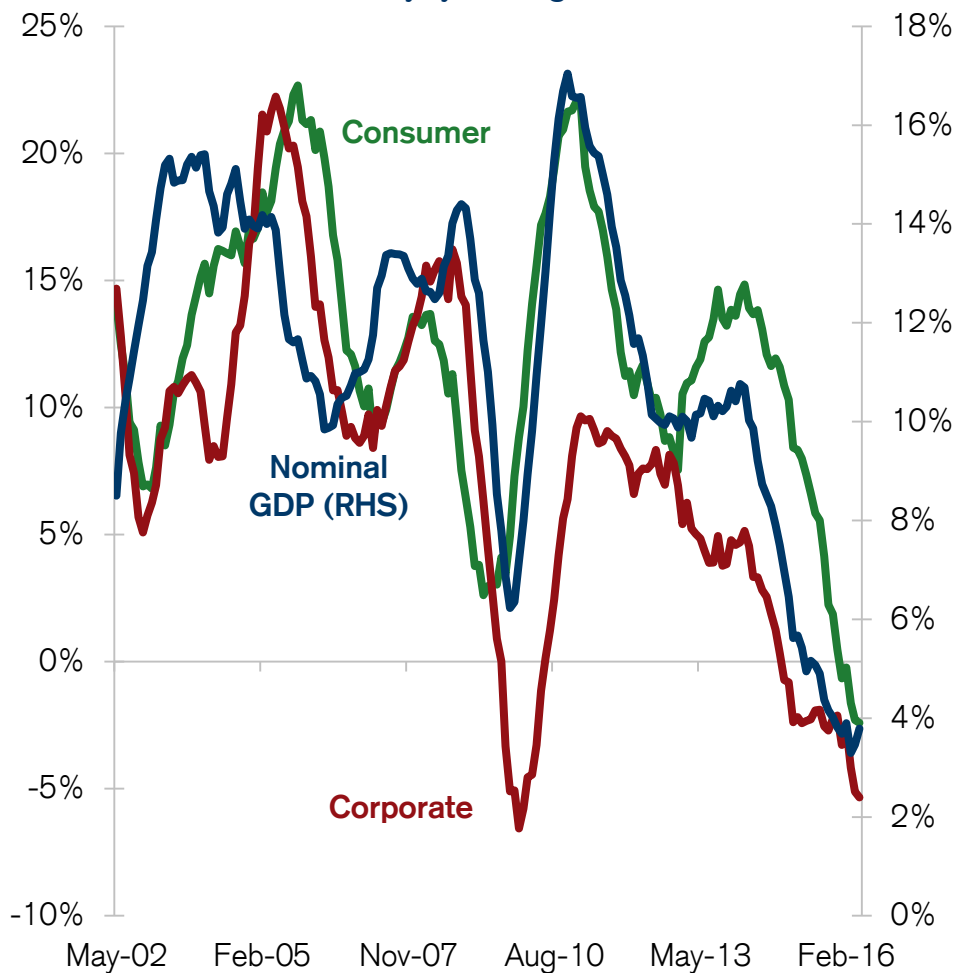
## Credit originations in excess of credit amortizations

R\$ billion



# A close look at credit originations sheds a light on the credit pick up debate (2)

**Growth in LTM credit originations of consumer and corporate loans**  
(% y/y change)



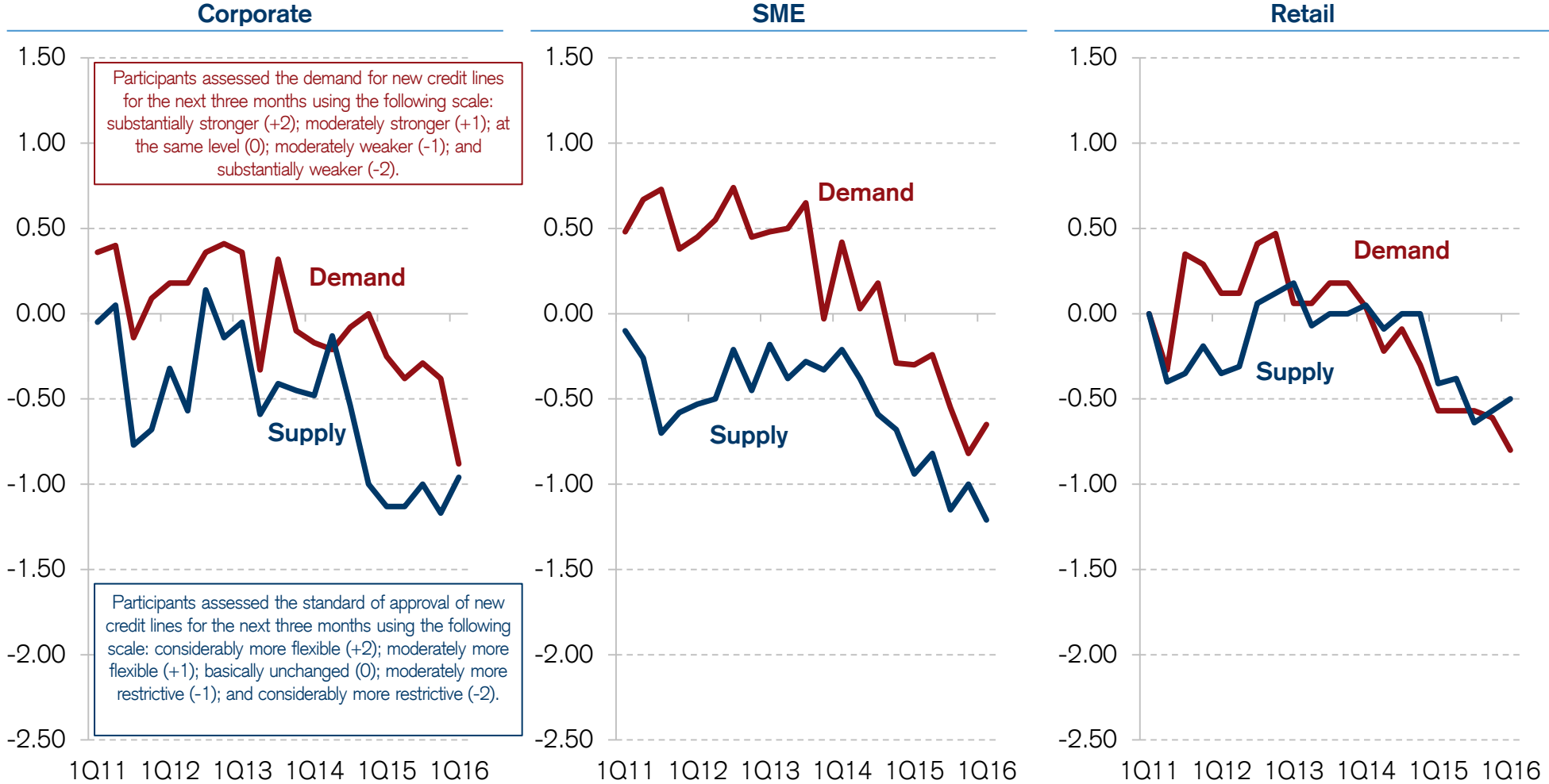
Increase in credit origination growth 12 and 24 month following troughs  
Credit origination growth 12 and 24 months following the trough less credit origination growth at the trough

Individuals	Δ 1-year	Δ 2-years
Jan-03	8.8%	9.8%
Mar-07	4.4%	-5.1%
Apr-09	13.0%	15.9%
Dec-12	6.3%	3.3%
<b>Average</b>	<b>8.1%</b>	<b>6.0%</b>
<b>CSe</b>	<b>12.0%</b>	<b>16.9%</b>
Corporate	Δ 1-year	Δ 2-years
Nov-02	5.9%	9.3%
Feb-04	11.5%	8.0%
Mar-07	6.0%	0.7%
Dec-09	14.7%	14.6%
<b>Average</b>	<b>9.5%</b>	<b>8.2%</b>
<b>CSe</b>	<b>12.1%</b>	<b>21.6%</b>

# Weak credit outlook a matter of both supply and demand

## Central Bank credit condition indicator

Expected supply and demand for the next three months (scale ranges from -2 to +2)





# All-time high corporate leverage to constrain pick-up in loan growth

## Forecast of Net Debt / Ebitda of the Brazilian corporate sector

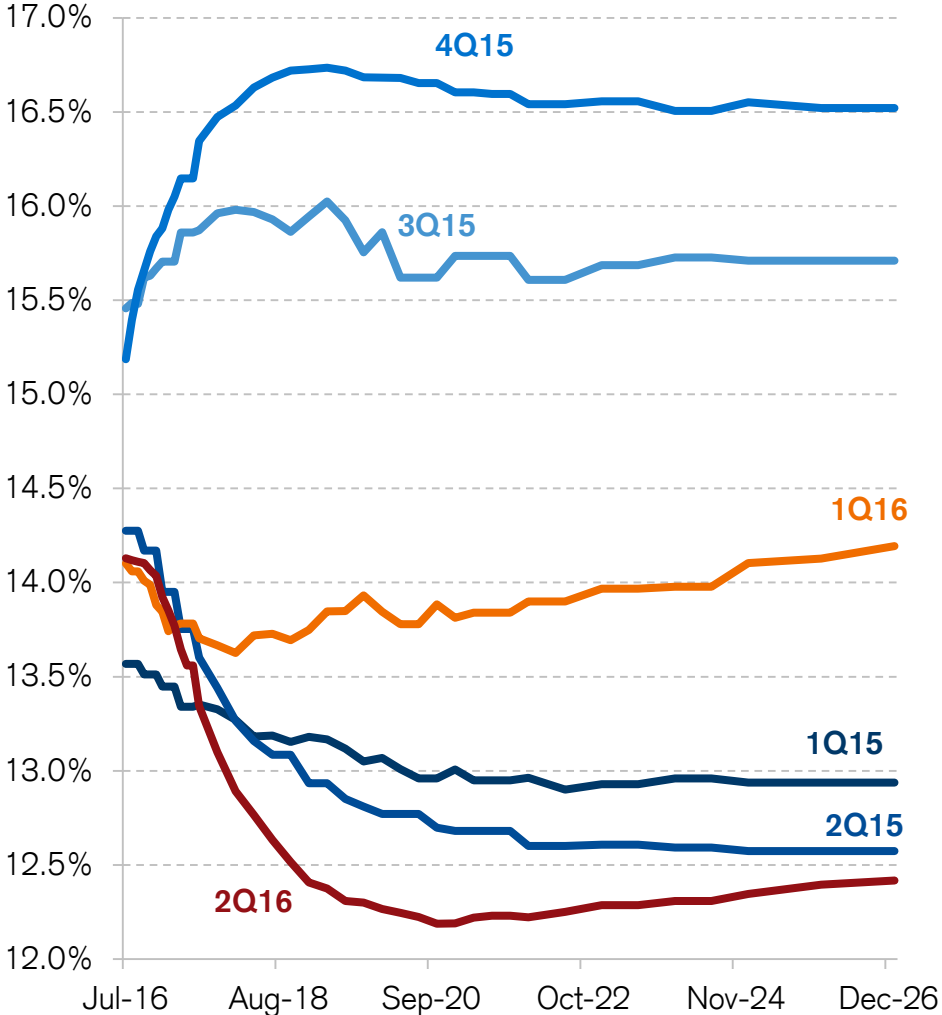
	1Q16	2016	2017	2018	2019
Net debt	291.9	297.0	293.0	274.9	240.1
Ebitda	100.0	100.0	115.0	132.3	152.1
Ebitda growth	n.a.	0%	15%	15%	15%
FCF	50.0	50.0	57.5	66.1	76.0
FCF conversion	50%	50%	50%	50%	50%
Interest accrual	56.2	56.8	53.5	48.0	41.2
Interest rate	19.25%	19.11%	18.27%	17.46%	17.17%
Net debt / Ebitda	2.92x	2.97x	2.55x	2.08x	1.58x

## Sensitivity of Brazilian corporate sector Net Debt /Ebitda in 2019

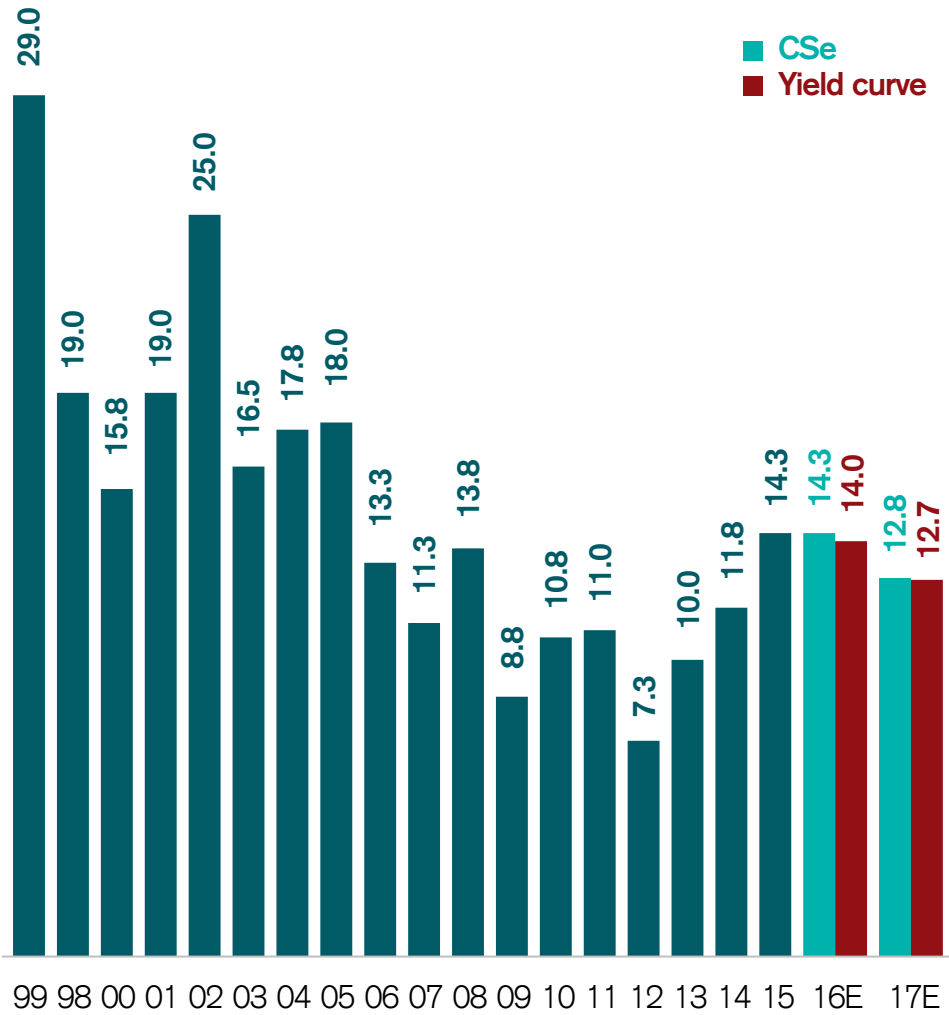
		2017-2019 Ebitda growth				
		5%	10%	15%	20%	25%
Change in 2017-2019 interest rate (bps)	-400	2.07x	1.64x	1.29x	1.00x	0.76x
	-300	2.16x	1.72x	1.36x	1.05x	0.80x
	-200	2.26x	1.80x	1.43x	1.11x	0.85x
	-100	2.37x	1.89x	1.50x	1.18x	0.90x
	0 bps	2.48x	1.99x	1.58x	1.24x	0.96x
	+100	2.60x	2.08x	1.66x	1.31x	1.02x
	+200	2.72x	2.19x	1.75x	1.38x	1.08x
	+300	2.85x	2.29x	1.84x	1.46x	1.15x
	+400	2.99x	2.41x	1.94x	1.54x	1.21x

# Yield curve points to sharp monetary easing; What does that mean for banks?

Yield curve (%)

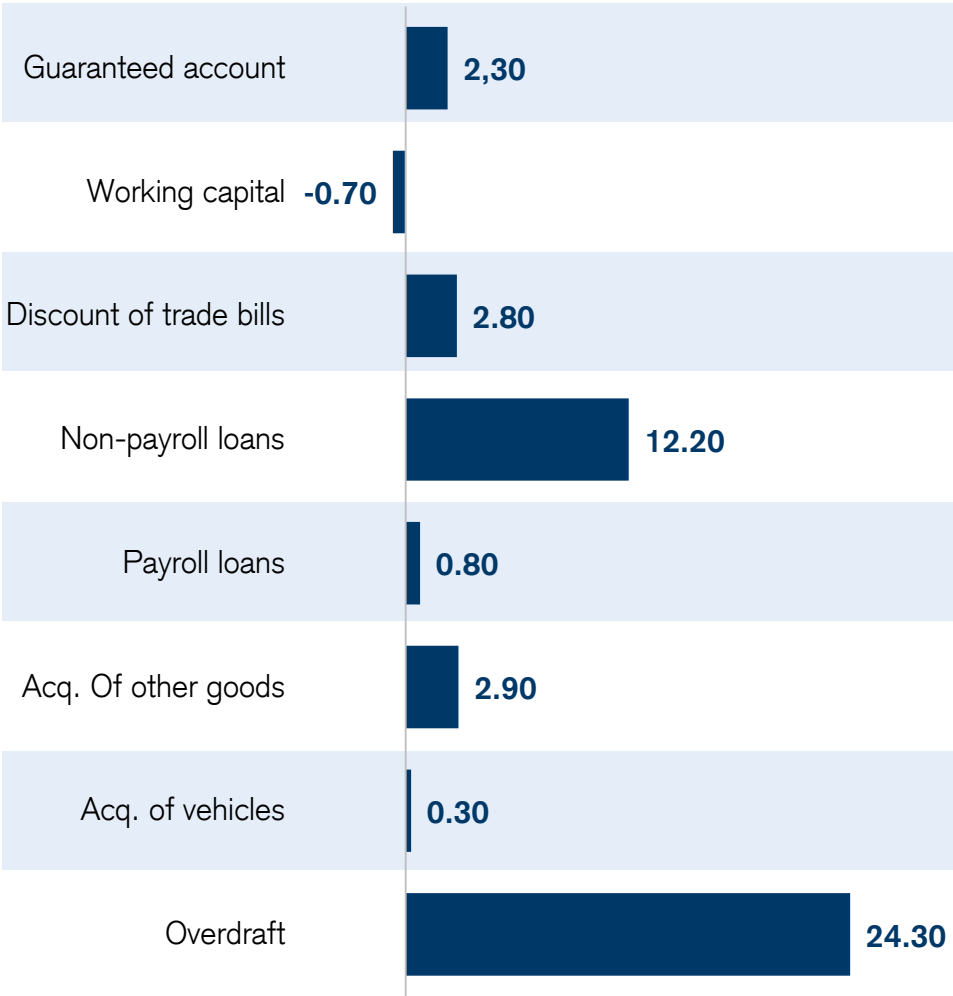


Target Selic interest rate – EOP (%)

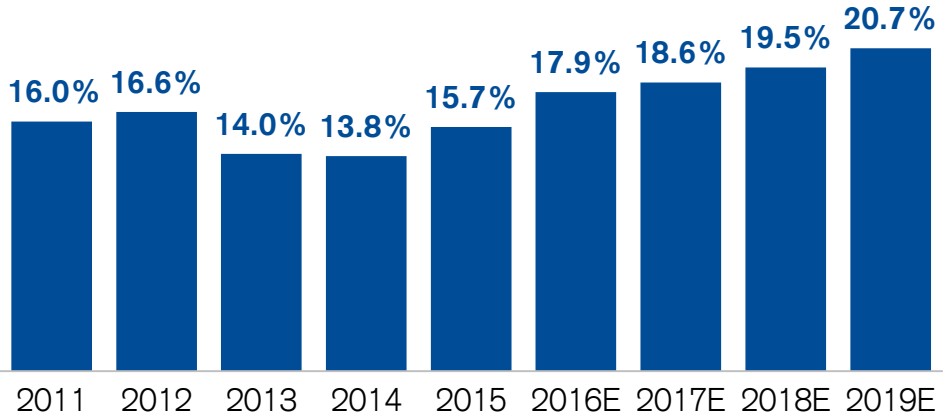


# Re-pricing of back book losing steam; NII to depend chiefly on loan growth

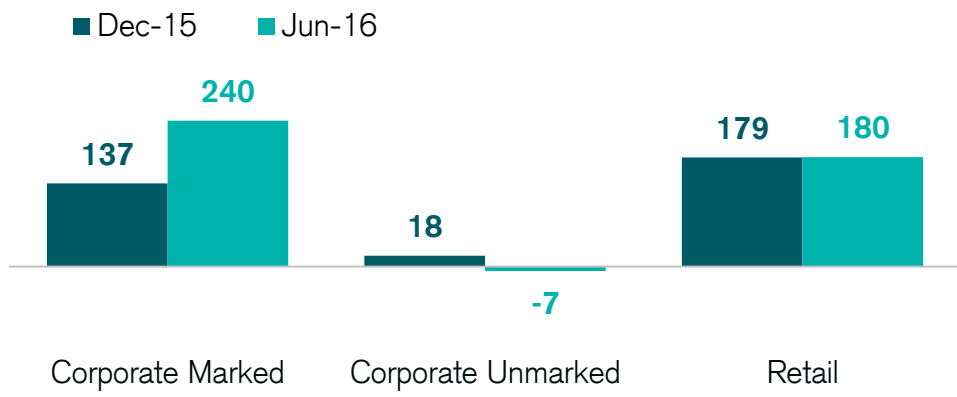
Changes in interest rates on new loan originations  
(p.p YoY, May/15)



Average credit spread of the banking system (CSe)  
Interest rates charged less Selic rate (% , May/15)



Reported origination rate vs. estimated portfolio average rate  
Average rate less origination rate (bps)



# Understanding the impact from lower Selic rate on banks' earnings

## Short-term impact from a 100bps decline in interest rates

R\$ million, % of 2016E net income

	Excess liquidity	Loan/ deposit mismatch	Total			
			0% hedged	% of net income	100% hedged	% of net income

	(832)	1,800	968	3.12%	(832)	-2.68%
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 Bradesco	(649)	1,653	1,004	3.45%	(649)	-2.23%
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 BANCO DO BRASIL	(723)	2,640	1,917	20.96%	(723)	-7.91%
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 Banrisul	(58)	201	143	15.16%	(58)	-6.13%
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## Long-term impact from a 100bps decline in interest rates


R\$ million, % of 2016E net income

	Excess liquidity	Corporate loans	Total			
			0% re- pricing	% of net income	100% re- pricing	% of net income

	(832)	(1,017)	(832)	-2.68%	(1,849)	-5.95%
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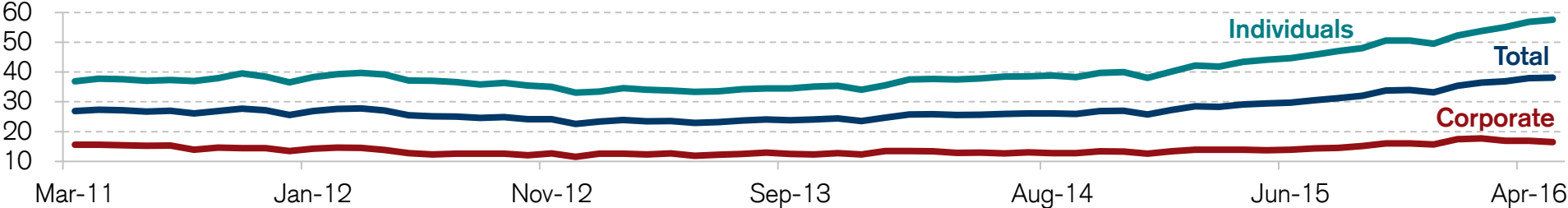
 Bradesco	(649)	(896)	(649)	-2.23%	(1,545)	-5.31%
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 BANCO DO BRASIL	(723)	(1,339)	(723)	-7.91%	(2,062)	-22.55%
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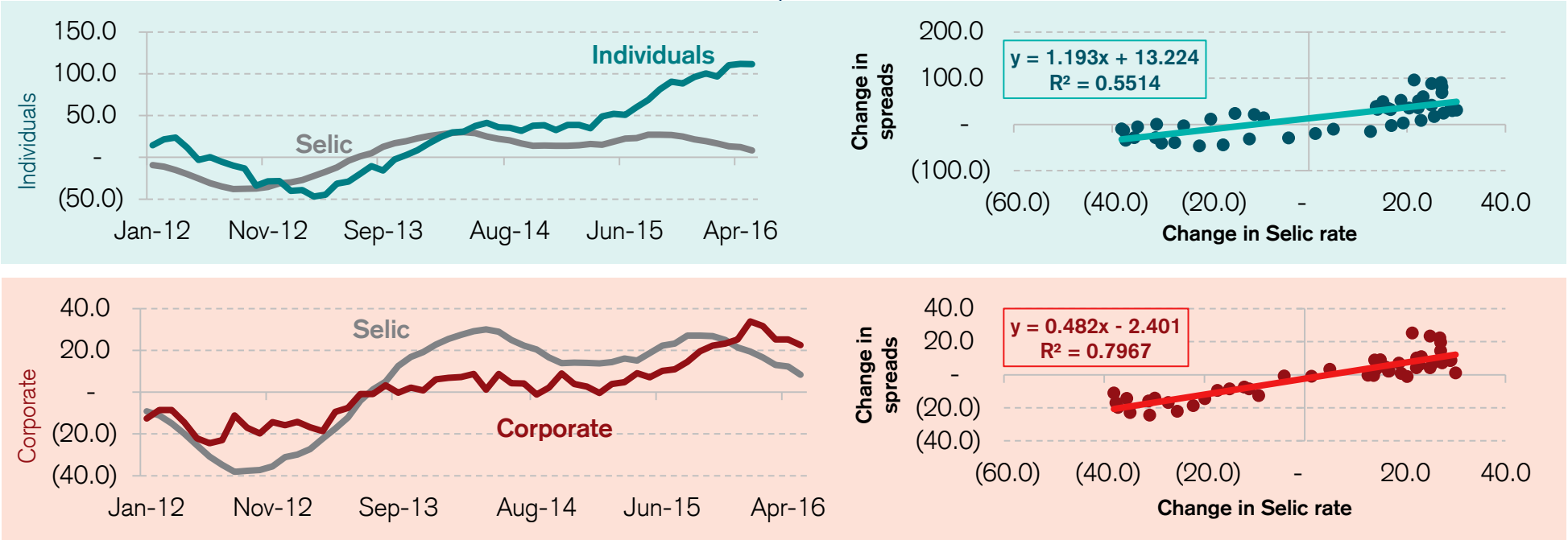
 Banrisul	(58)	(13)	(58)	-6.13%	(71)	-7.51%
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# High correlation between monetary policy rate and corporate spreads

Historic credit spreads on new unmarked loan originations  
Interest rates charged less Selic rate (% , May/15)



LTM average of monthly changes in the Selic rate and credit spreads (bps)

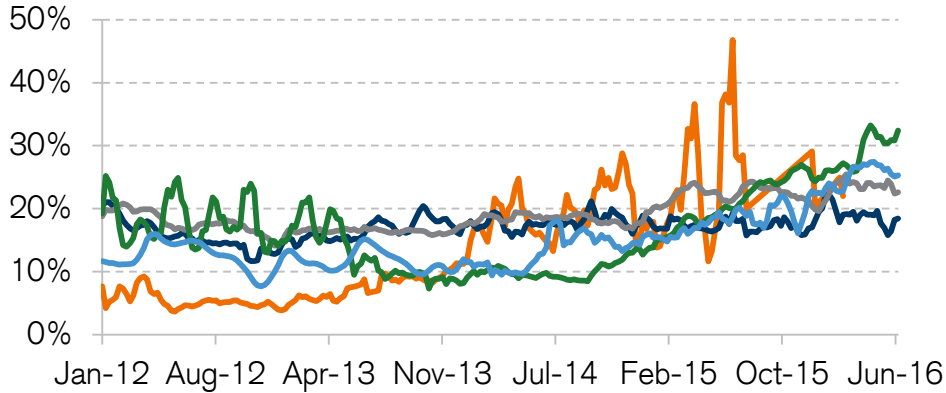




# Corporate spreads cooling off

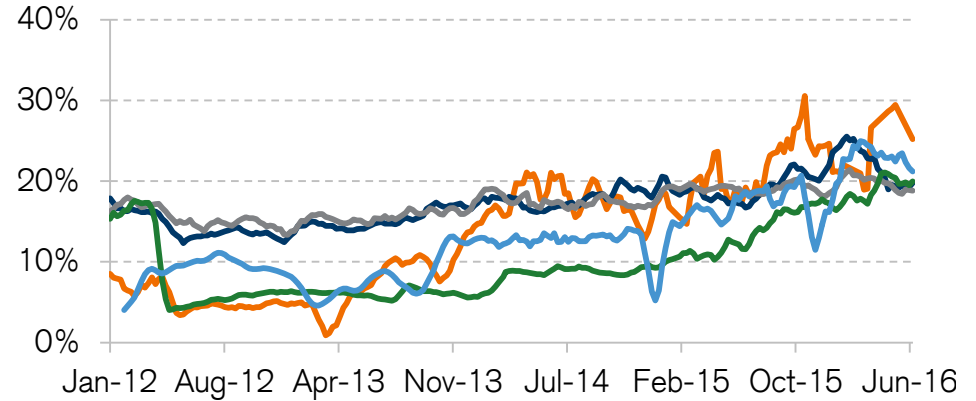
## Fixed rate WC loans up to 365 days

Origination annual rates, as of Jun/16



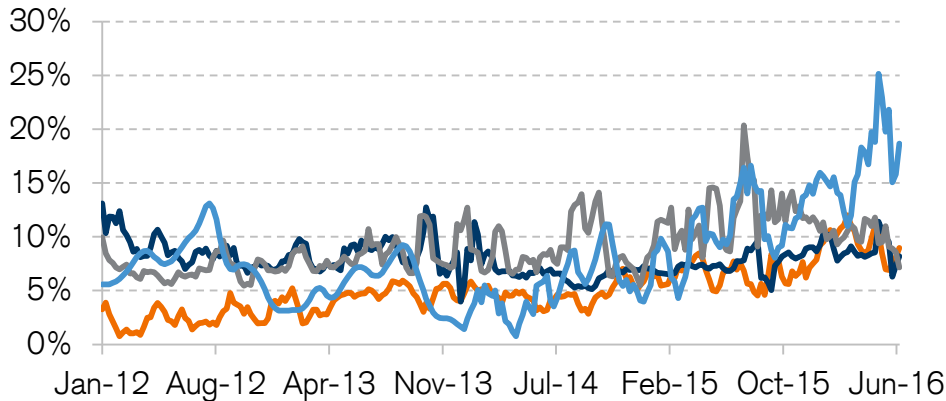
## Fixed rate WC loans over 365 days

Origination annual rates, as of Jun/16



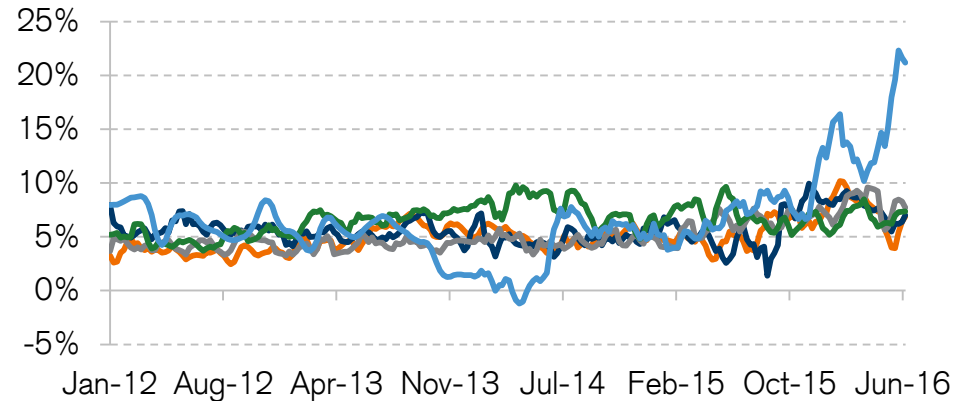
## Floating rate WC loans up to 365 days

Origination annual rates, as of Jun/16



## Floating rate WC loans over 365 days

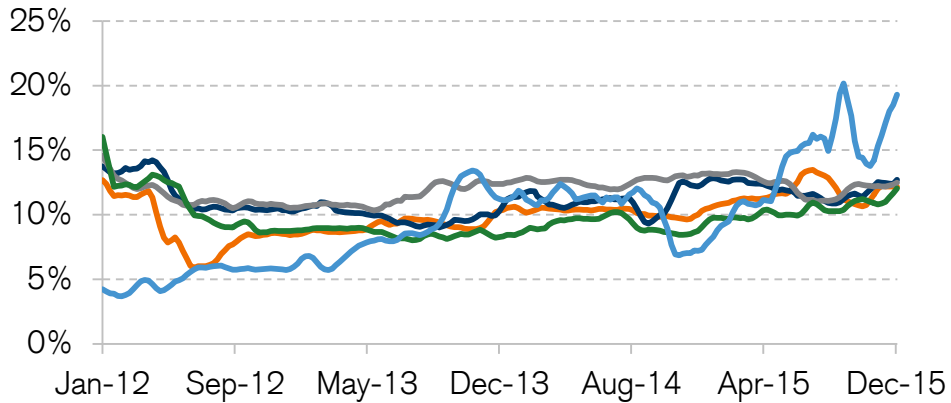
Origination annual rates, as of Jun/16



# Retail spreads on the rise in revolving credit lines

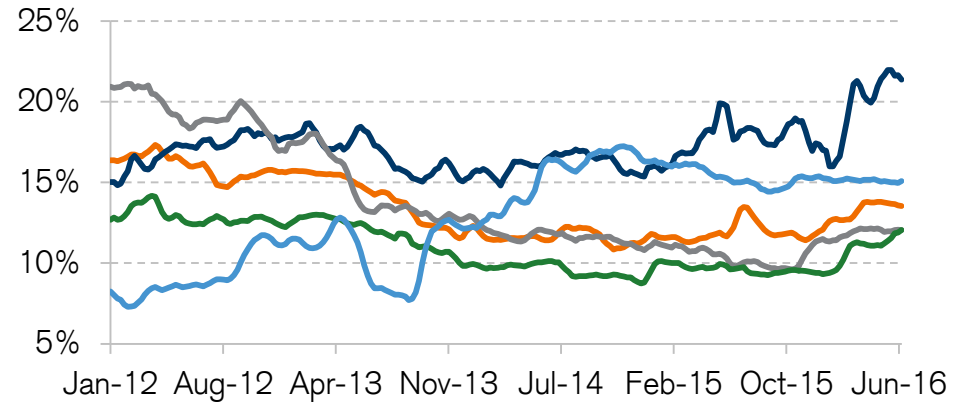
## Vehicles

Origination annual rates, as of Jun/16



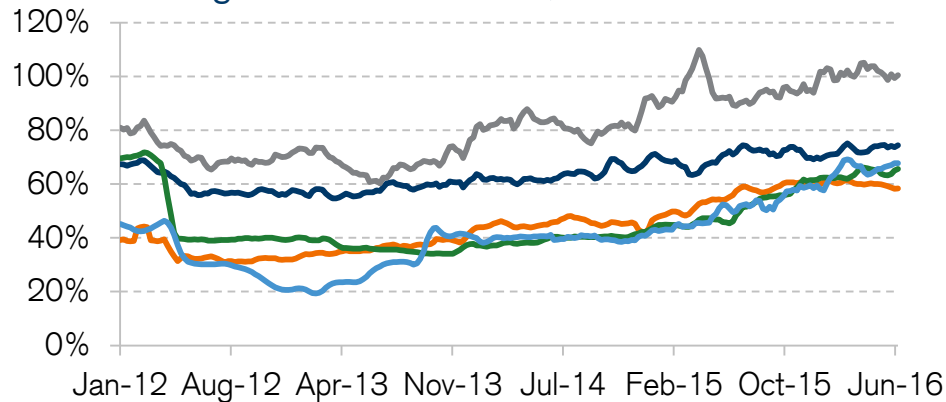
## Payroll for government employees

Origination annual rates, as of Jun/16



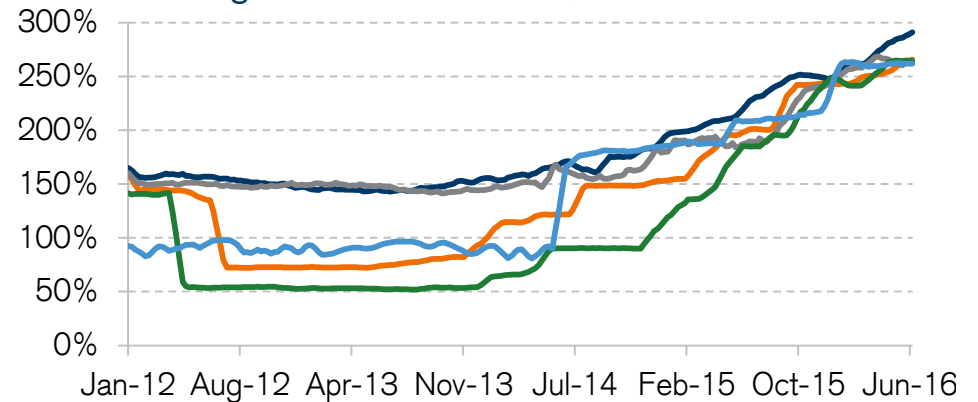
## Non-payroll personal loans

Origination annual rates, as of Jun/16



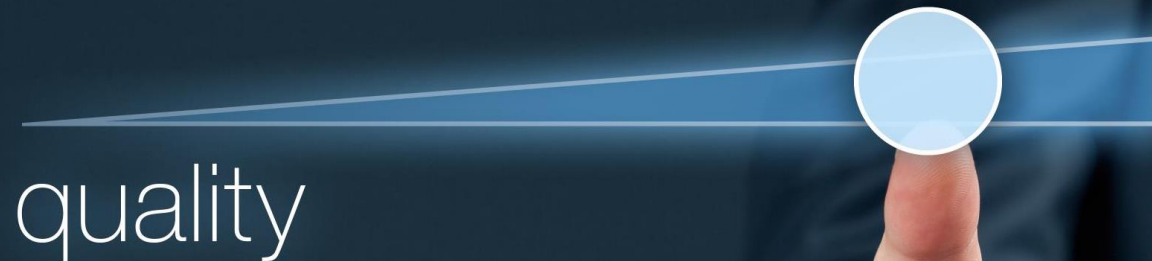
## Overdraft

Origination annual rates, as of Jun/16



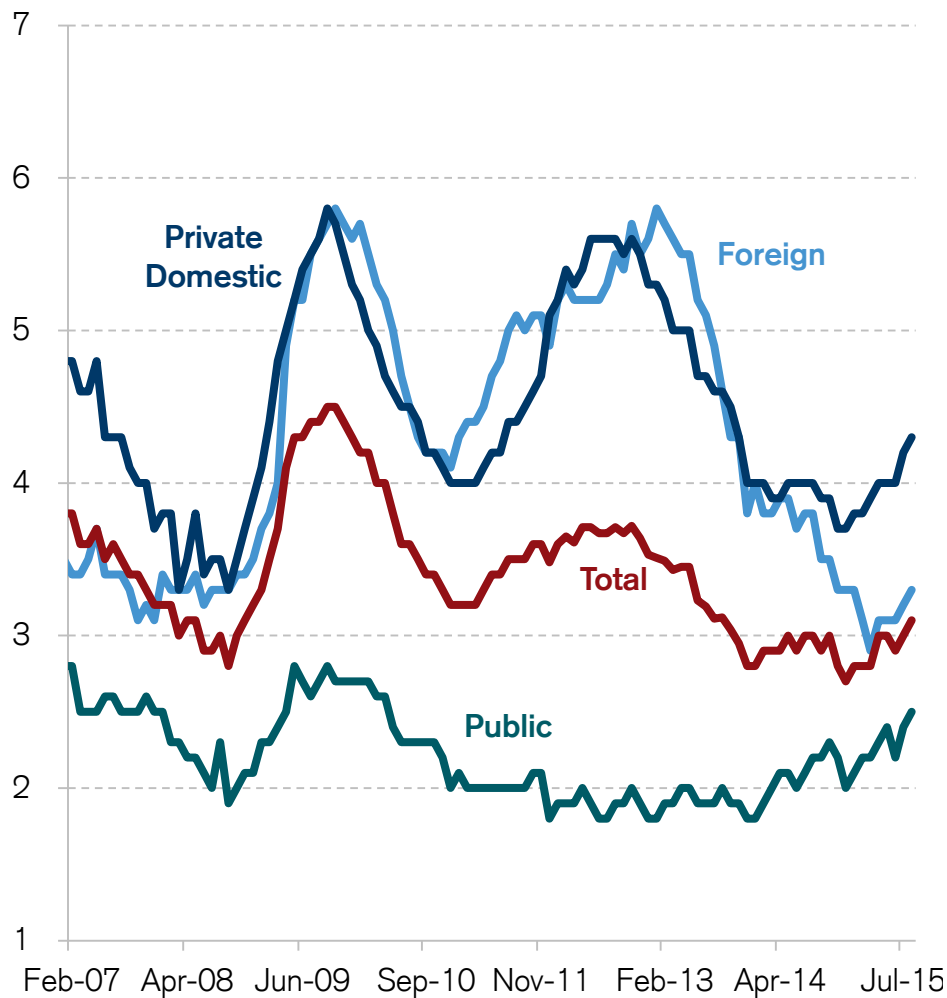
# Asset quality

Cost of risk improvement to be more gradual

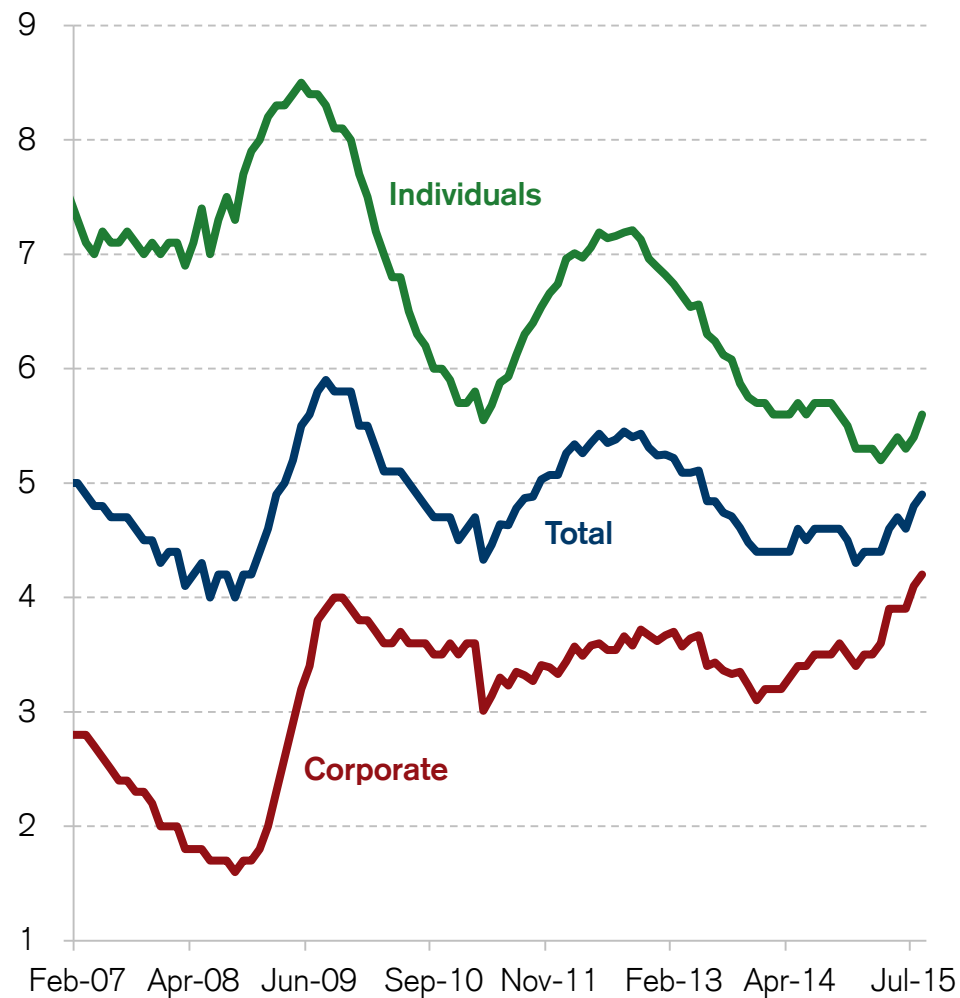


# Asset quality deterioration on a rising trend

Historic 90-day NPL ratio (%)  
Marked and unmarked loans (Aug/15)

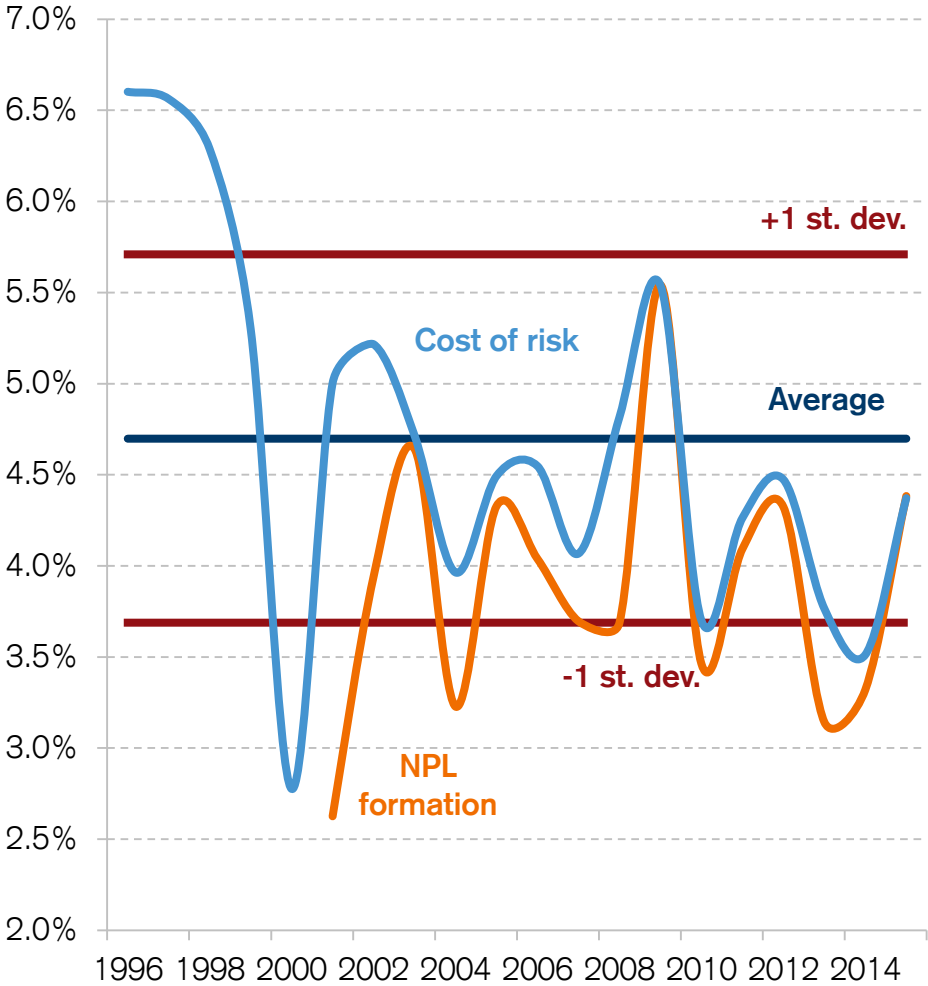


Banking system delinquency (%)  
Unmarked lending only (Aug/15)

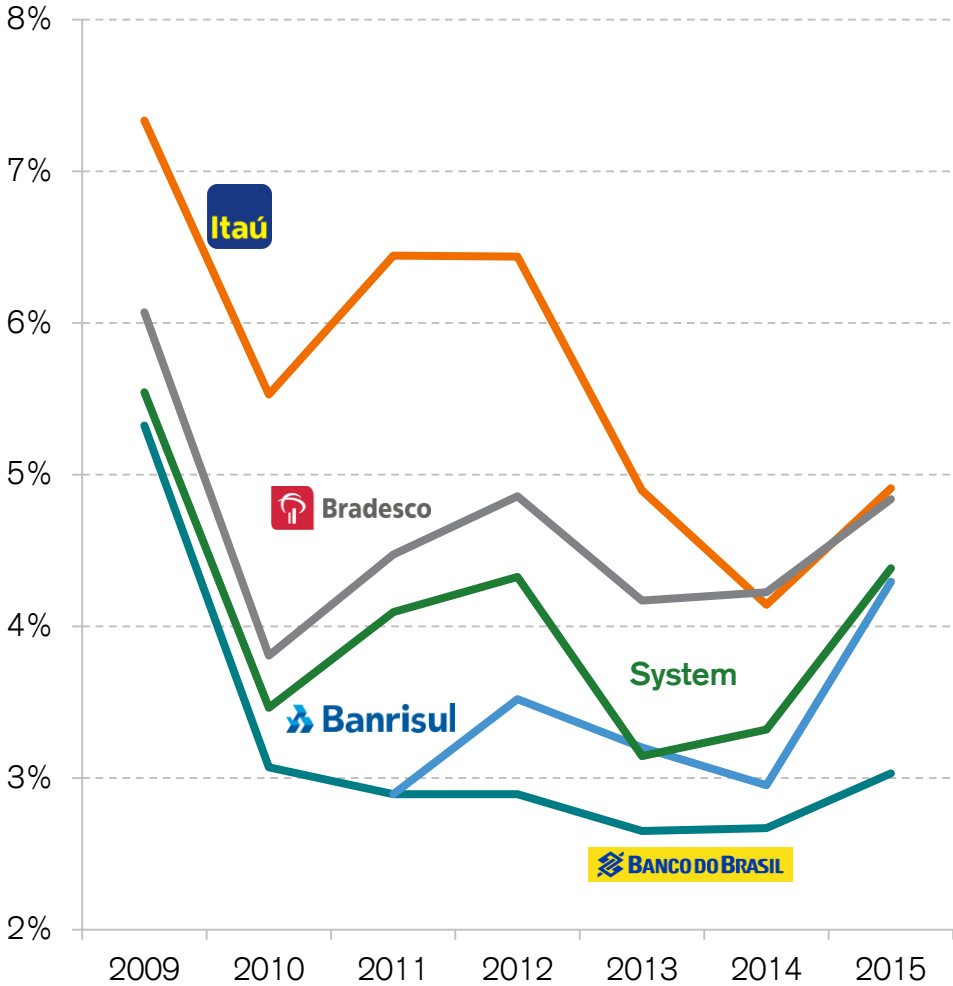


# History shows there is room for cost of risk to continue to rise

NPL formation rate and cost of risk of Brazilian banking system (% of average loans)



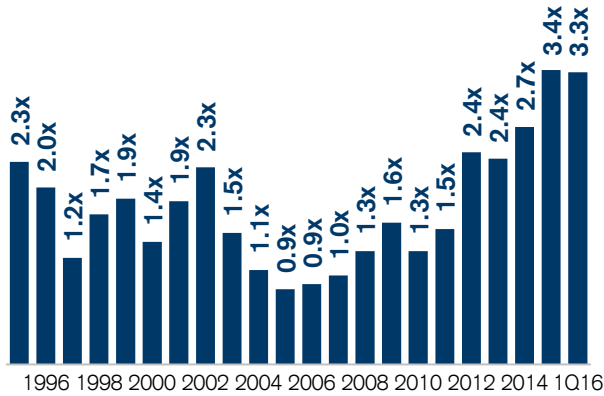
NPL formation rate % of average loans



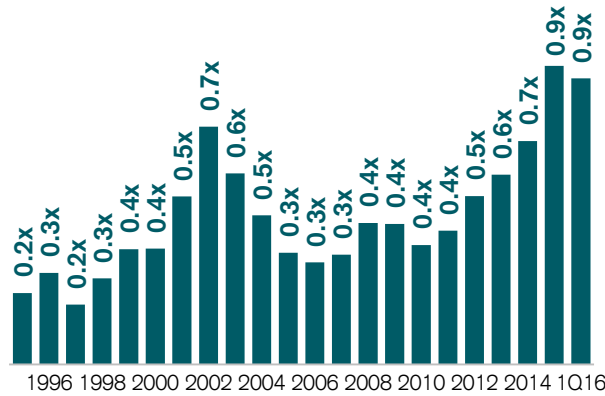


# Brazilian corporate sector needs to deleverage

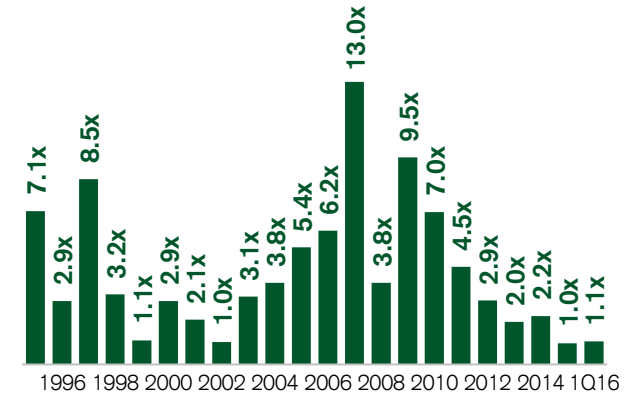
**Brazilian companies net debt to Ebitda**  
Net debt / LTM trailing Ebitda



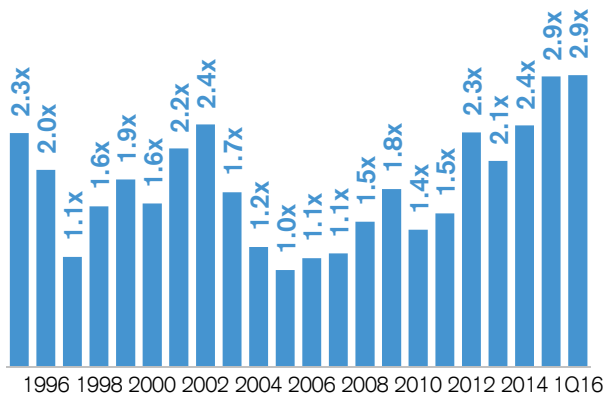
**Brazilian companies net debt to equity**  
Net debt / shareholders' equity



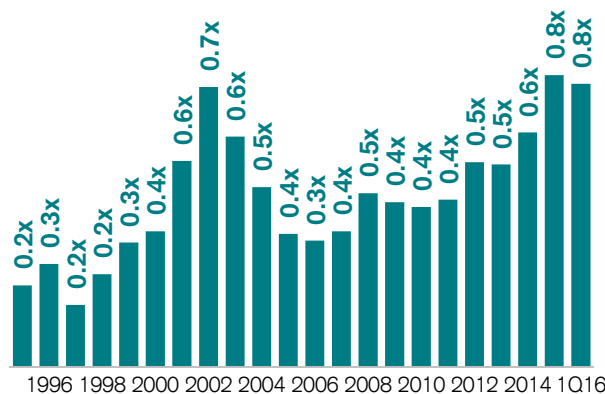
**Brazilian companies interest coverage ratio**  
LTM Ebit / LTM trailing financial results



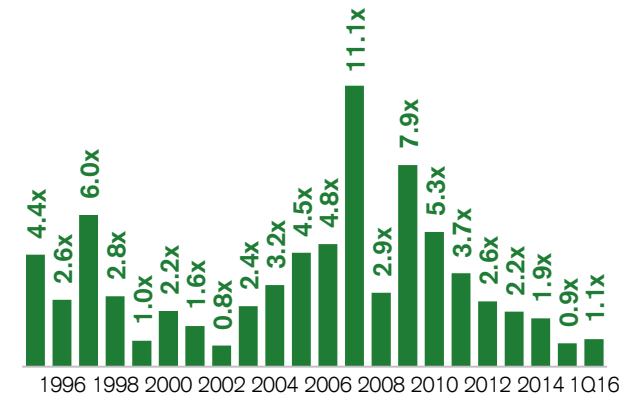
**Brazilian companies net debt to Ebitda**  
Net debt / LTM trailing Ebitda (ex-Petrobras)



**Brazilian companies net debt to equity**  
Net debt / shareholders' equity (ex-Petrobras)



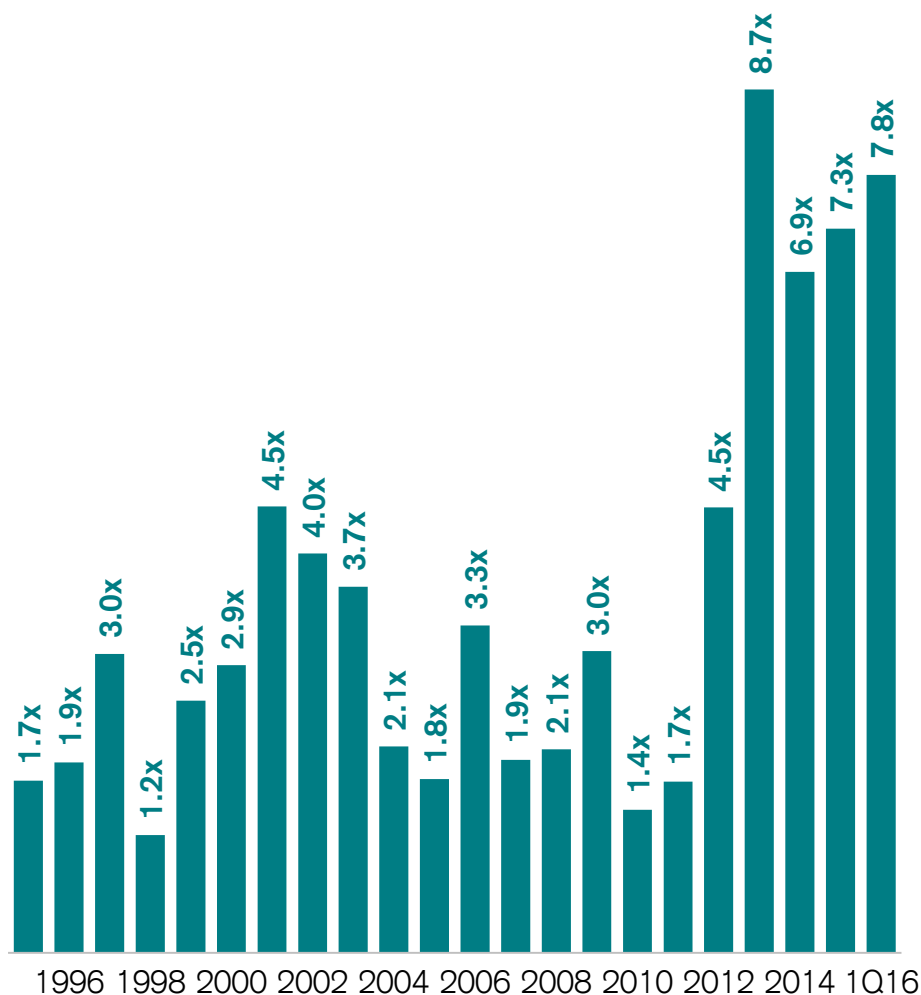
**Brazilian companies interest coverage ratio**  
LTM Ebit / LTM trailing financial results (ex-Petrobras)



# SMEs leverage at unsustainable levels

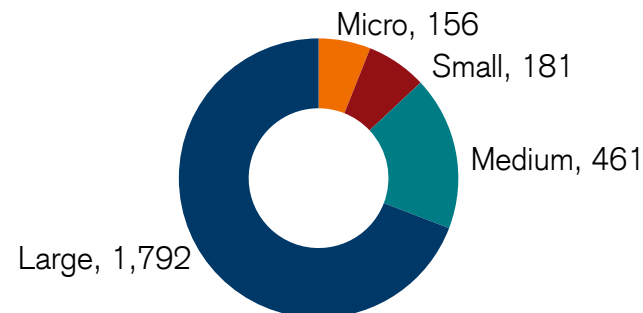
## Brazilian SMEs net debt to Ebitda

Net debt / LTM trailing Ebitda



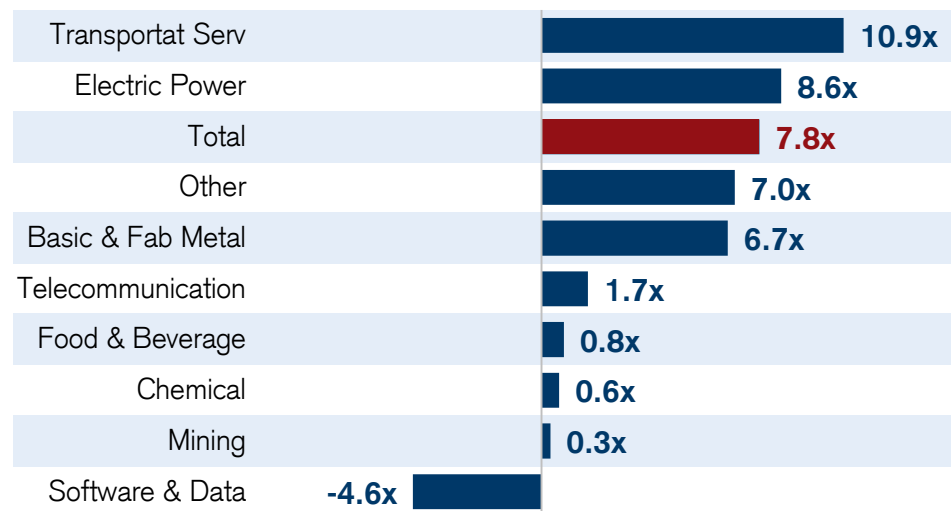
## Corporate debt breakdown by company size

R\$ billion; assumes that foreign loans and bonds are taken by large corporates exclusively



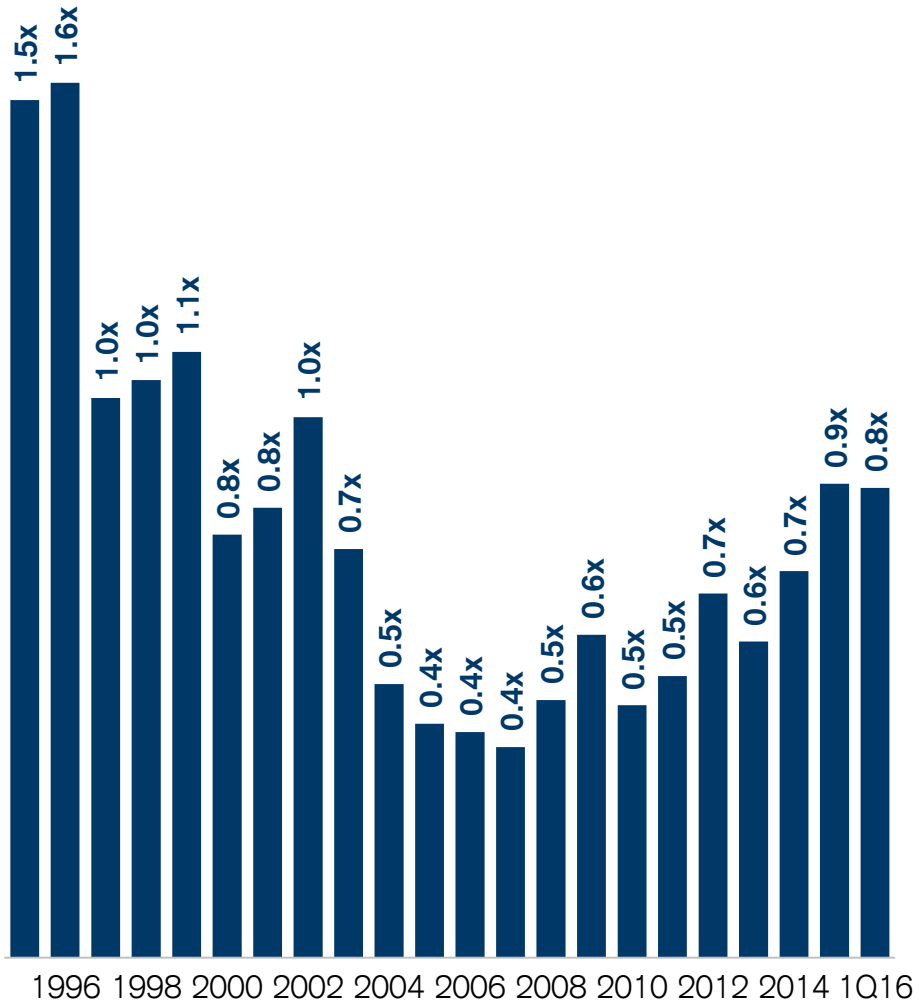
## Brazilian SMEs net debt to Ebitda by sector

Net debt / LTM trailing Ebitda

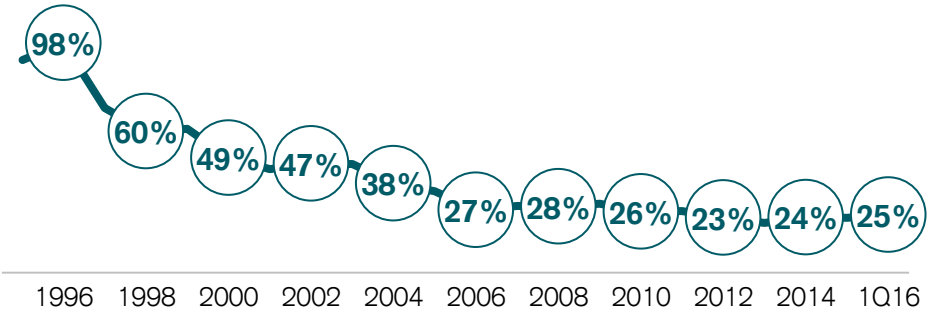


# Refinancing risk is a key concern

Short-term gross debt to LTM trailing Ebitda  
Short-term debt / LTM Ebitda

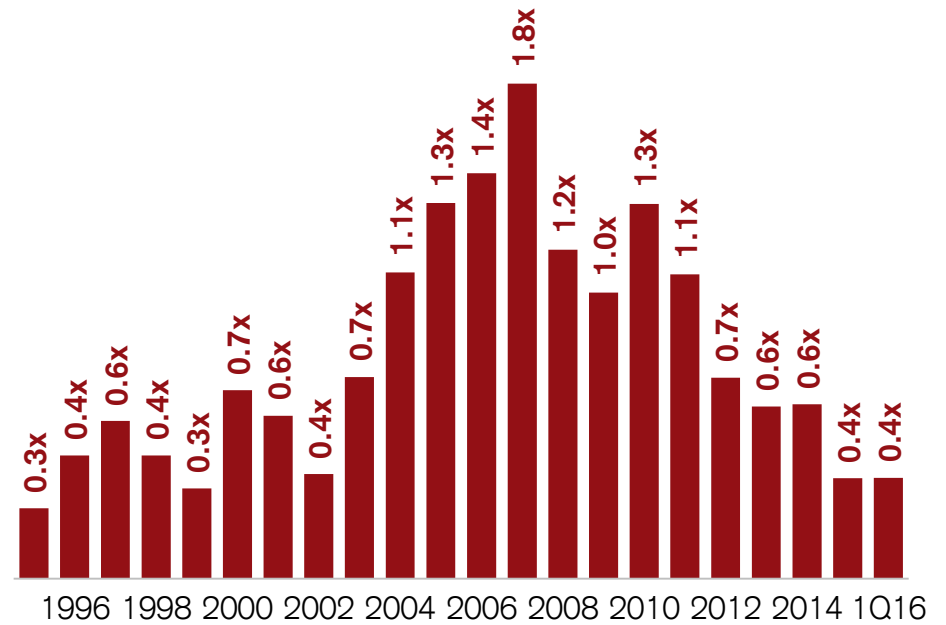


Relevance of short-term debt to total loans



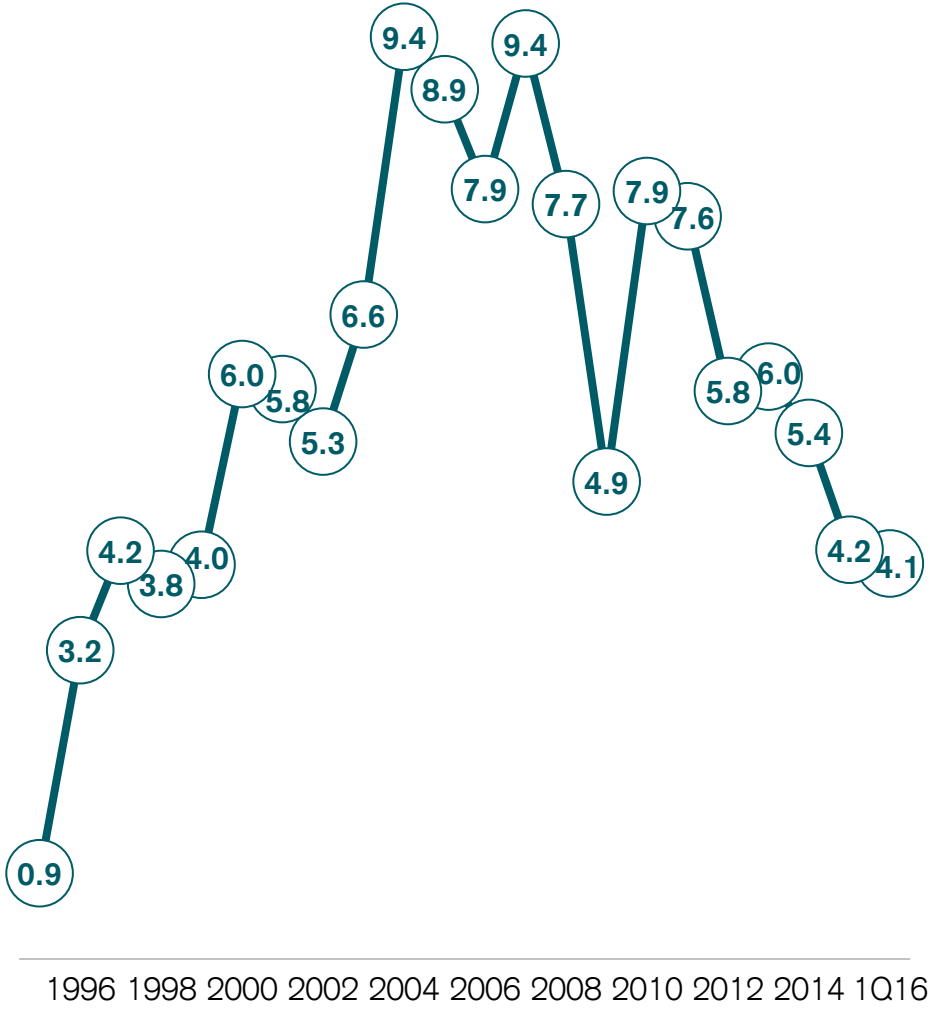
Debt servicing coverage ratio

Ebit / (LTM financial results + short-term debt)

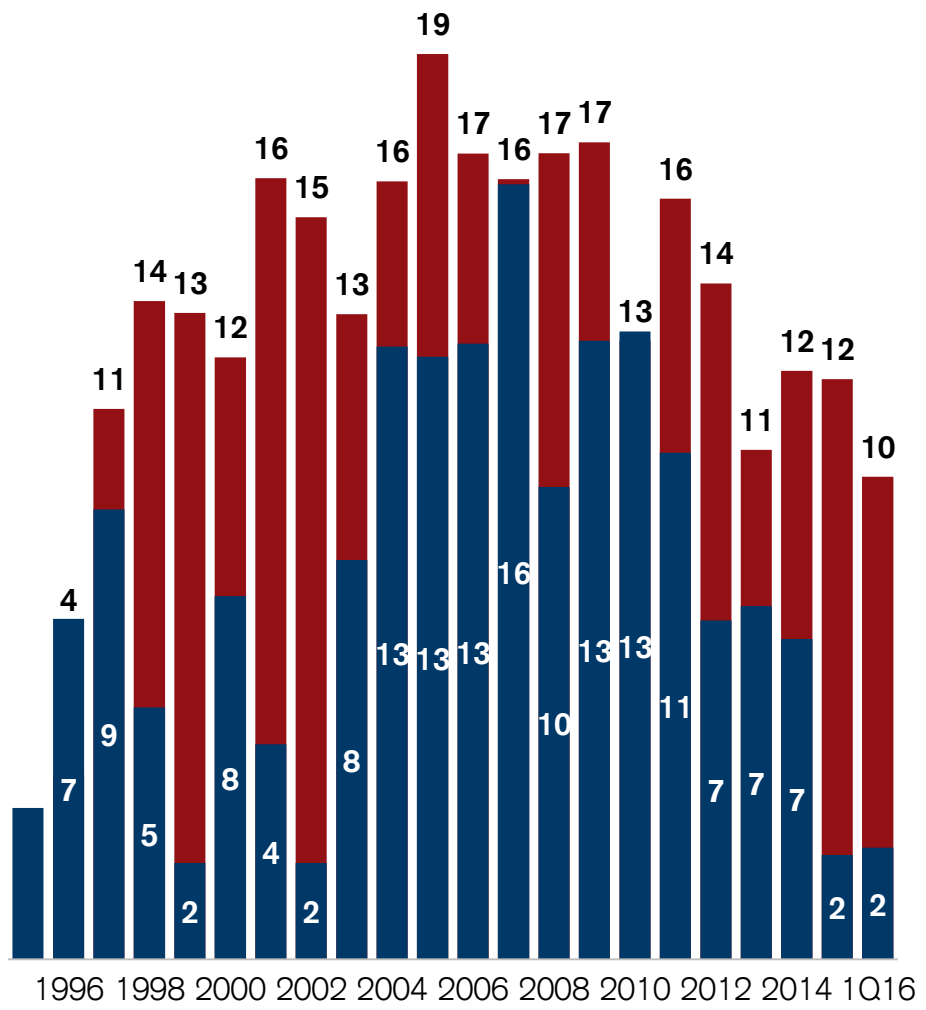


# Leverage eating up companies' margins

Aggregate return on invested capital (%)

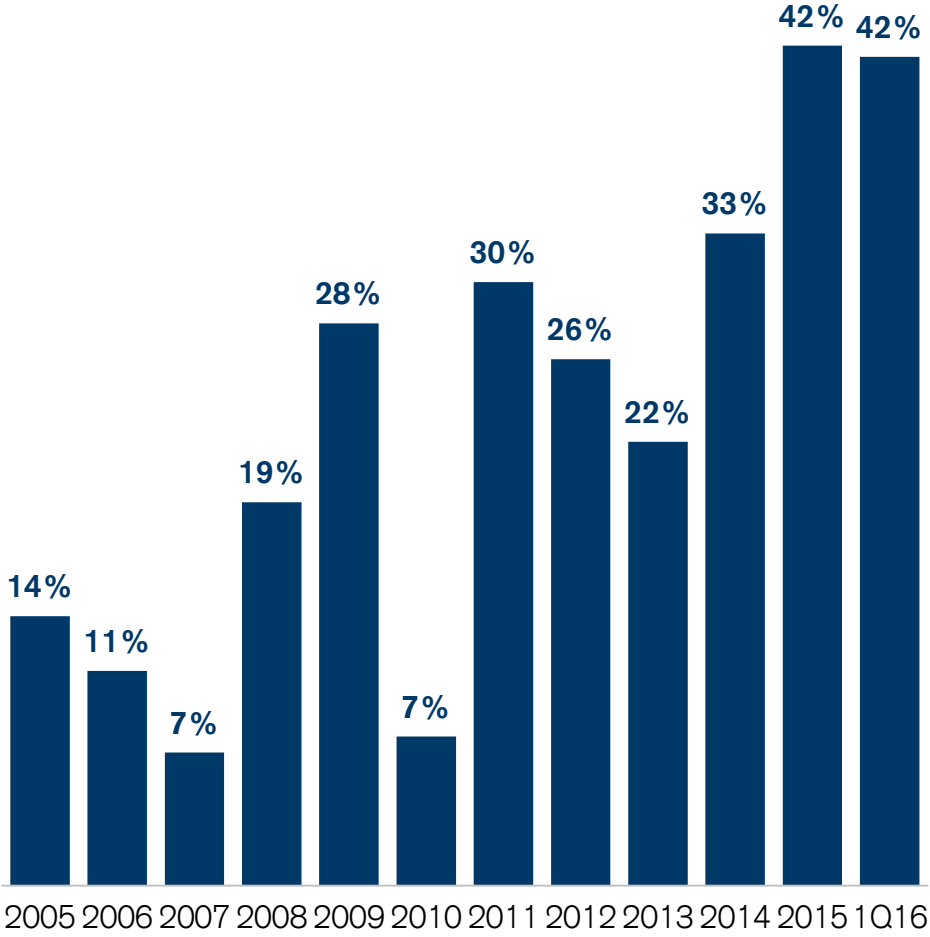


LTM Ebit and pre-tax margin of Brazilian companies (%)

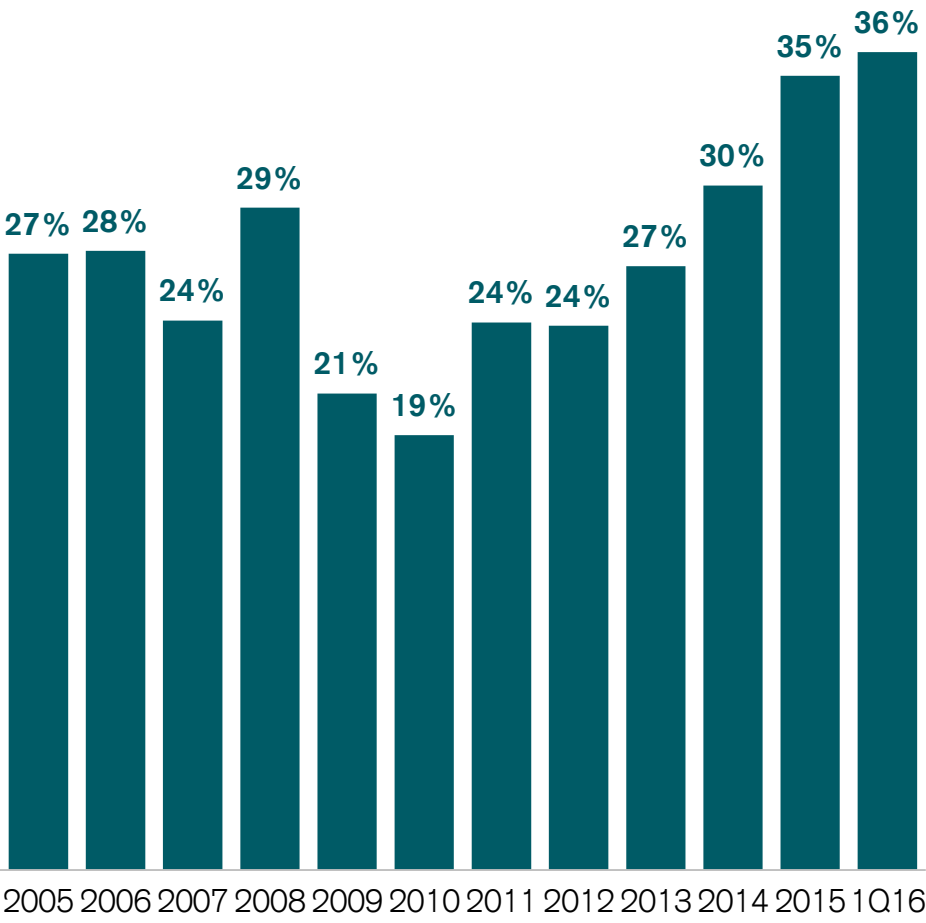


# Worrying interest coverage encompasses a large share of the sample

Share of corporate debt with companies having interest coverage < 1 ex-Petrobras and Vale



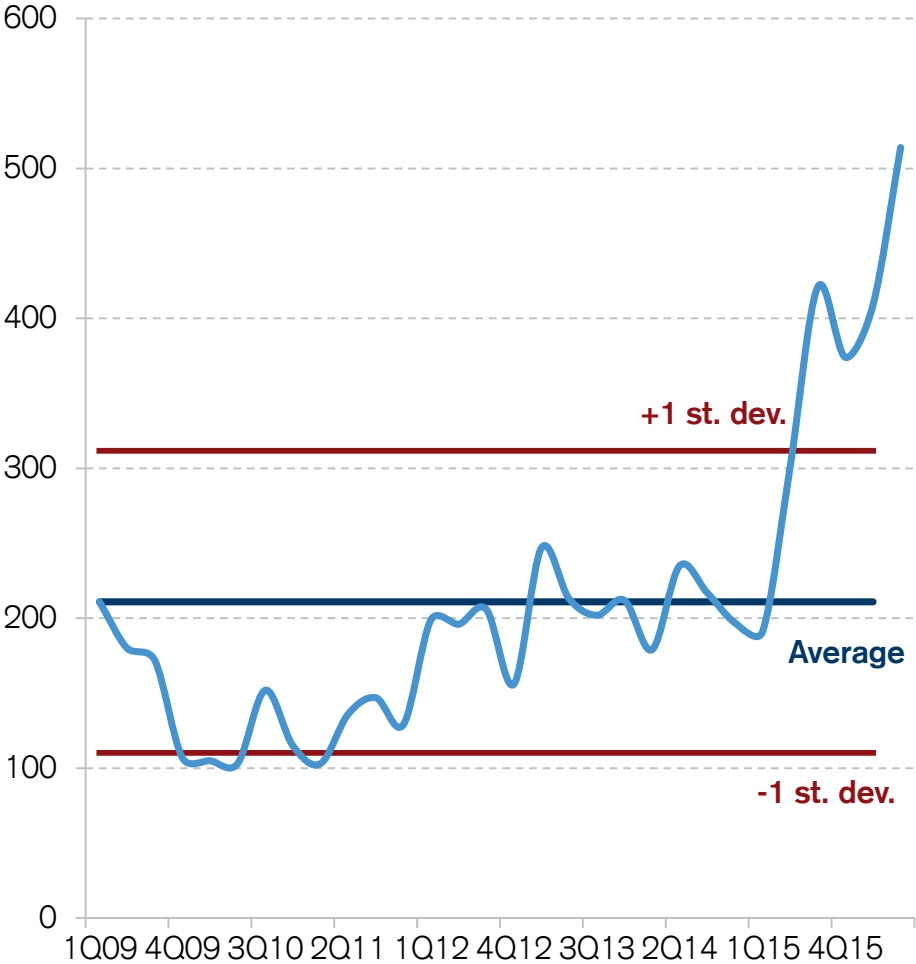
Share of companies with interest coverage < 1 ex-Petrobras and Vale



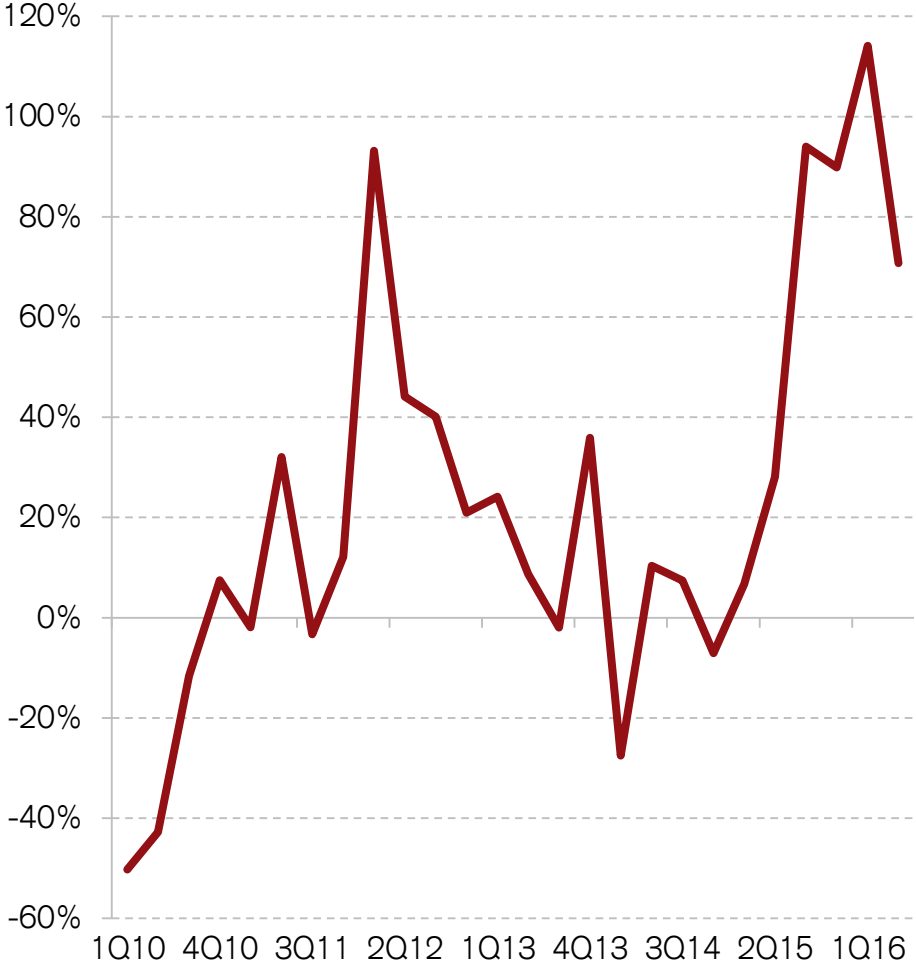


# Judicial recovery petitions have been a key headwind for cost of risk

**Quarterly petitions for court-supervised reorganizations**  
Number of petitions

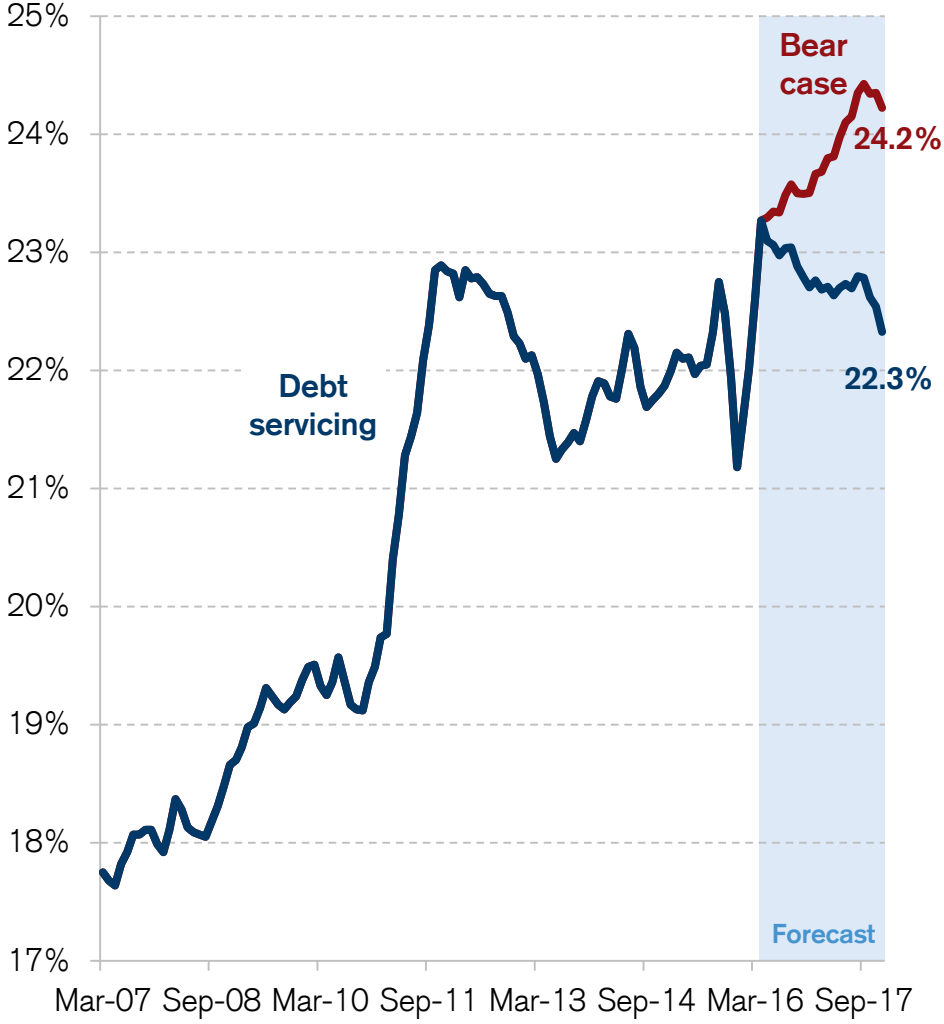


**Quarterly requests for court-supervised reorganizations**  
y/y change



# Consumer leverage to remain high for longer; improvement to be very gradual

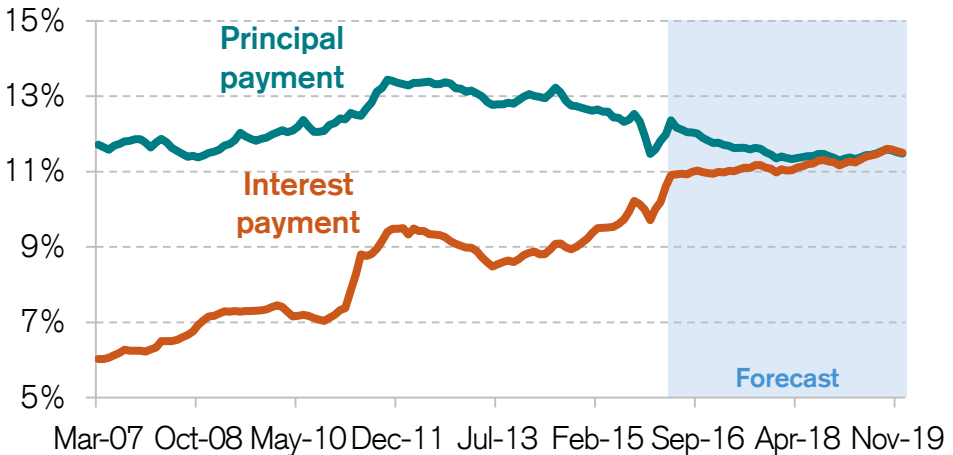
**Debt servicing to income**  
(% of total disposable income)



**Assumptions for disposable income**  
(average rates)

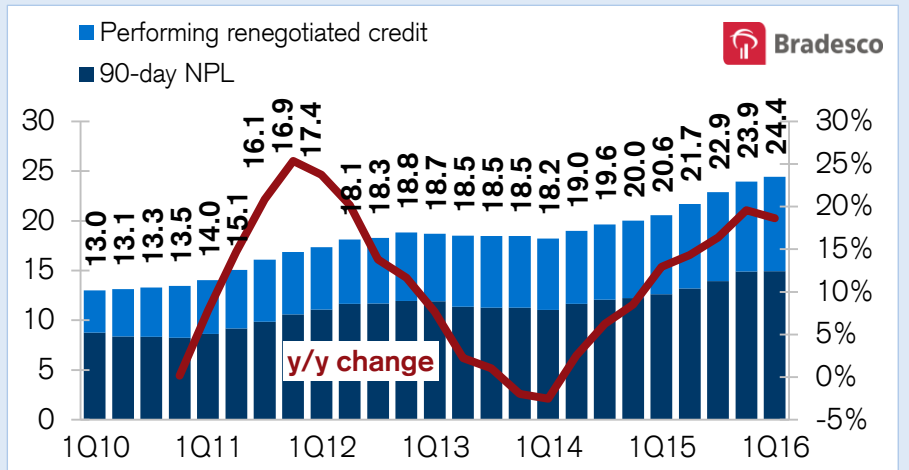
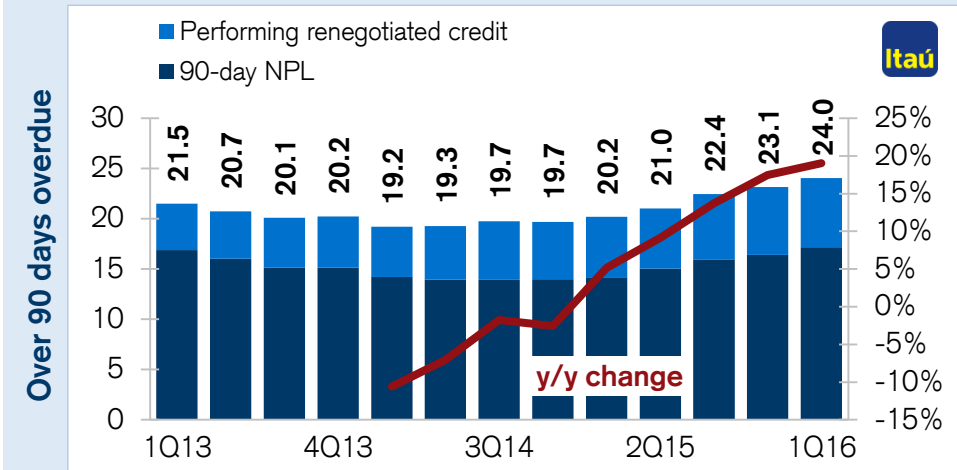
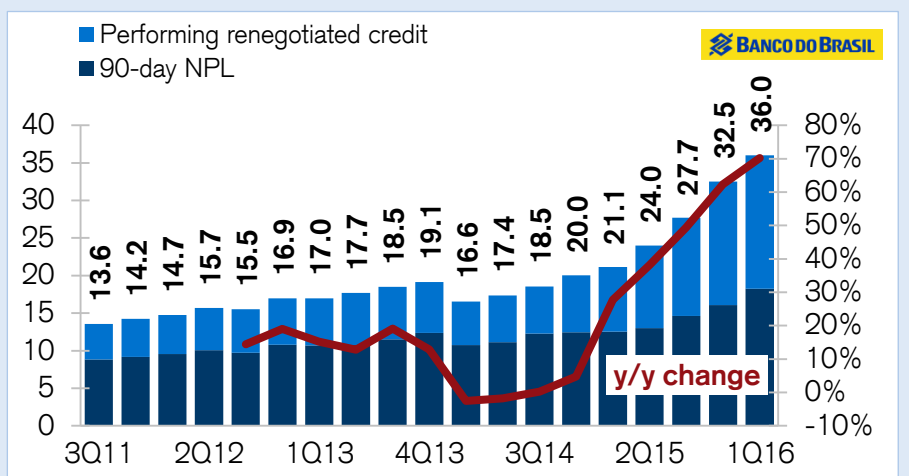
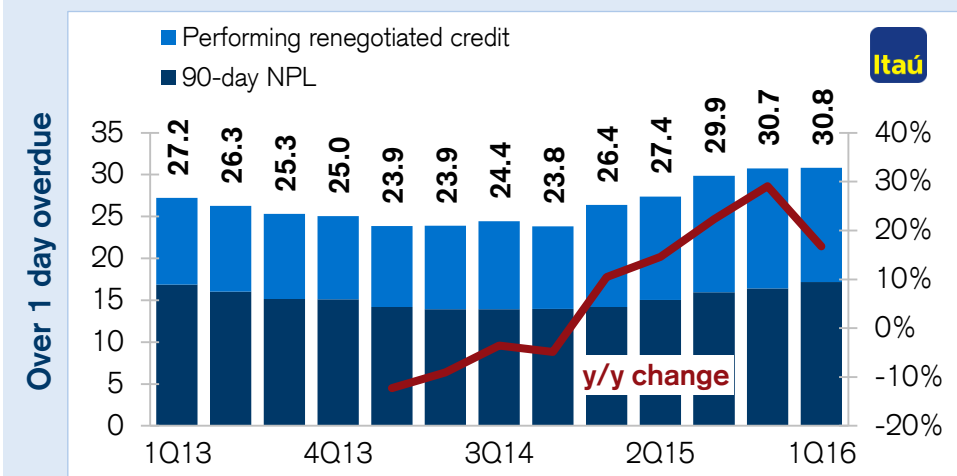
	Base Case			Bear Case	
	2015	2016	2017	2016	2017
Work force growth	1.9%	1.6%	1.2%	1.6%	1.2%
Employed population growth	0.0%	-1.5%	0.1%	-3.4%	-2.1%
Employment rate (PNADC)	91.5%	88.7%	87.7%	88.4%	86.5%
Unemployment rate	8.5%	11.3%	12.3%	13.0%	14.5%
Real wage growth	-0.3%	-3.0%	-0.5%	-5.5%	-3.0%
Real Wage Bill Growth	-0.3%	-4.5%	-0.5%	-8.7%	-5.0%
Average Inflation	8.6%	9.1%	6.8%	9.1%	6.8%
Nominal Wage Bill Growth	8.3%	4.2%	6.2%	-0.4%	1.4%

**Debt servicing to income breakdown**  
(% of total disposable income)



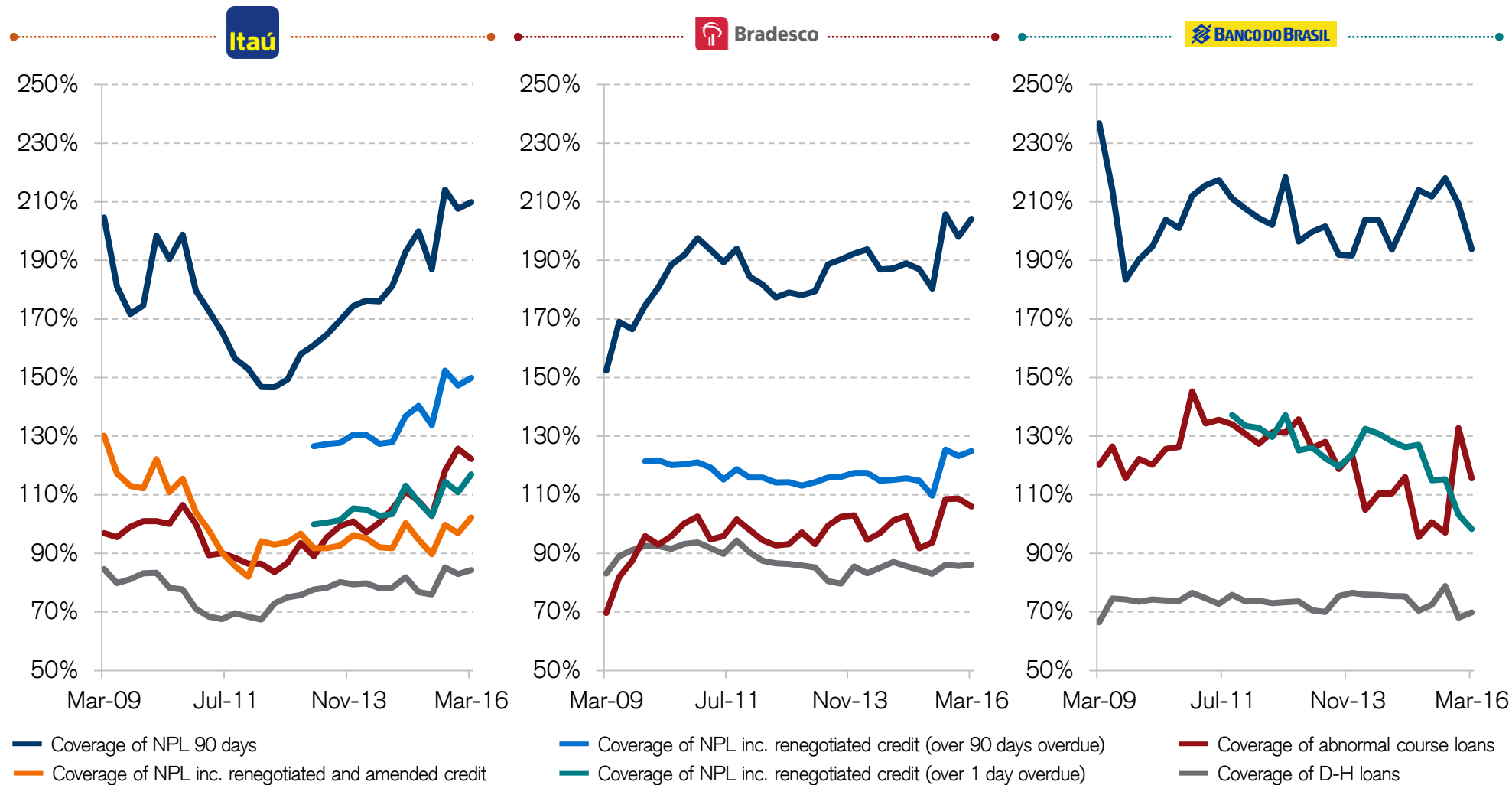
# Higher credit renegotiations to impact provisioning over the next 18 months

**Balance of bad debt**  
(under different criteria for the renegotiated portfolio)

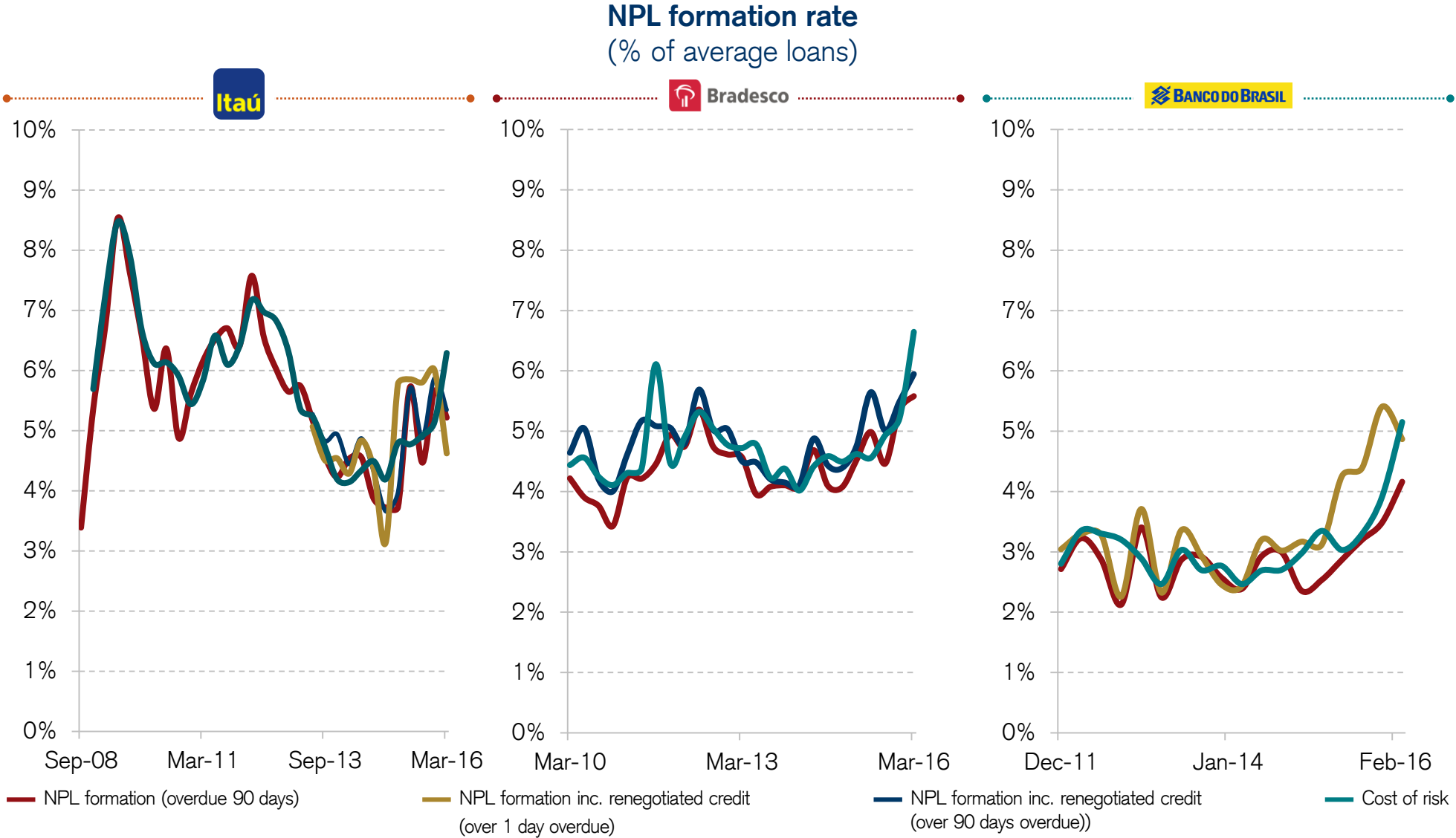


# Not-so-sheltered from bad times

Historical provisioning coverage: traditional versus alternative metrics  
(% of loan balance)



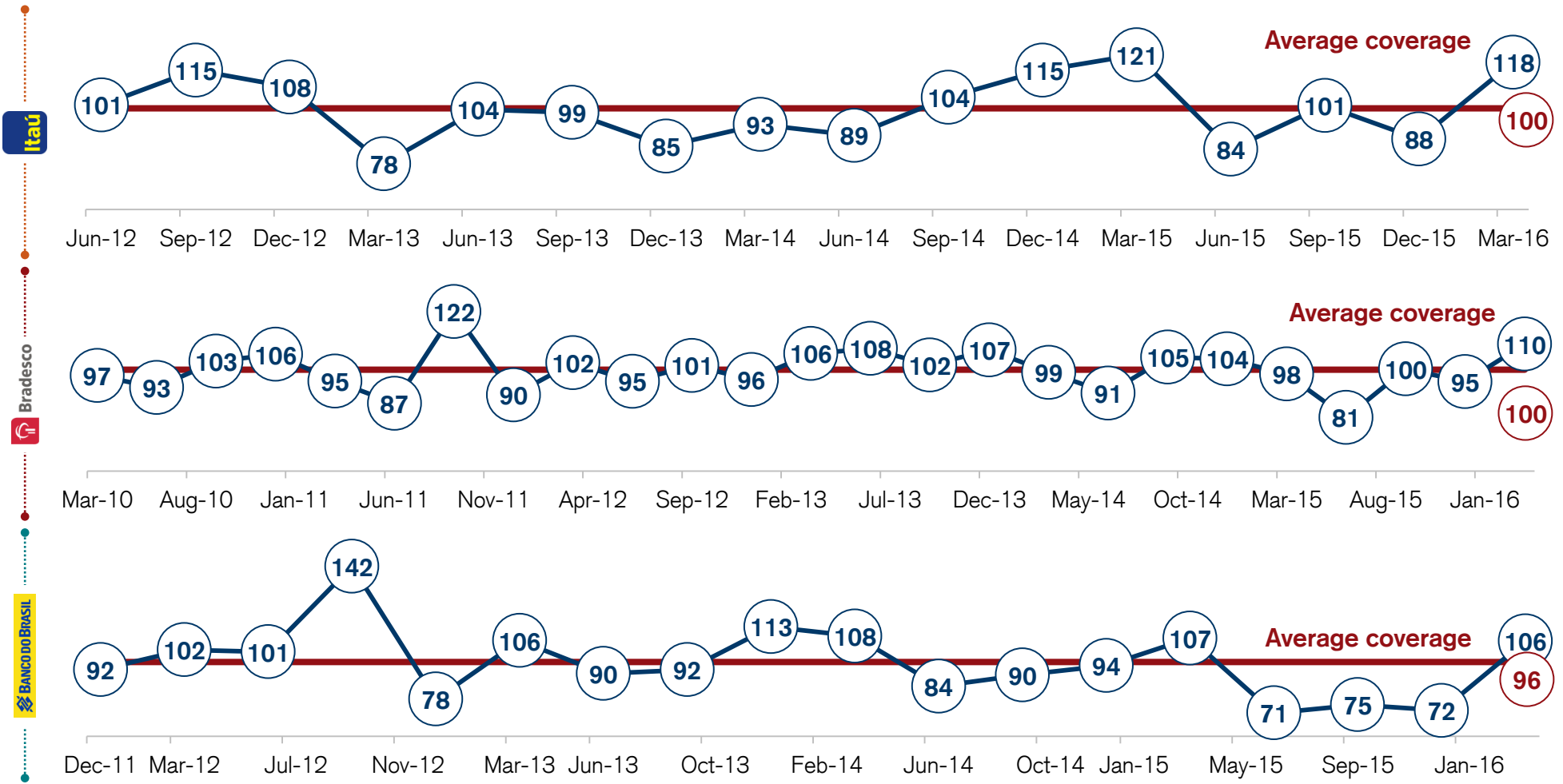
# Bad debt formation is highly correlated with cost of risk



# Cost of risk caught up with new NPLs in 1Q16, but boosted by corporate provisions

## Coverage of NPL formation rate including renegotiated portfolio (%)

90 days overdue criteria (CSe)



# Why renegotiated debt is largely bad debt

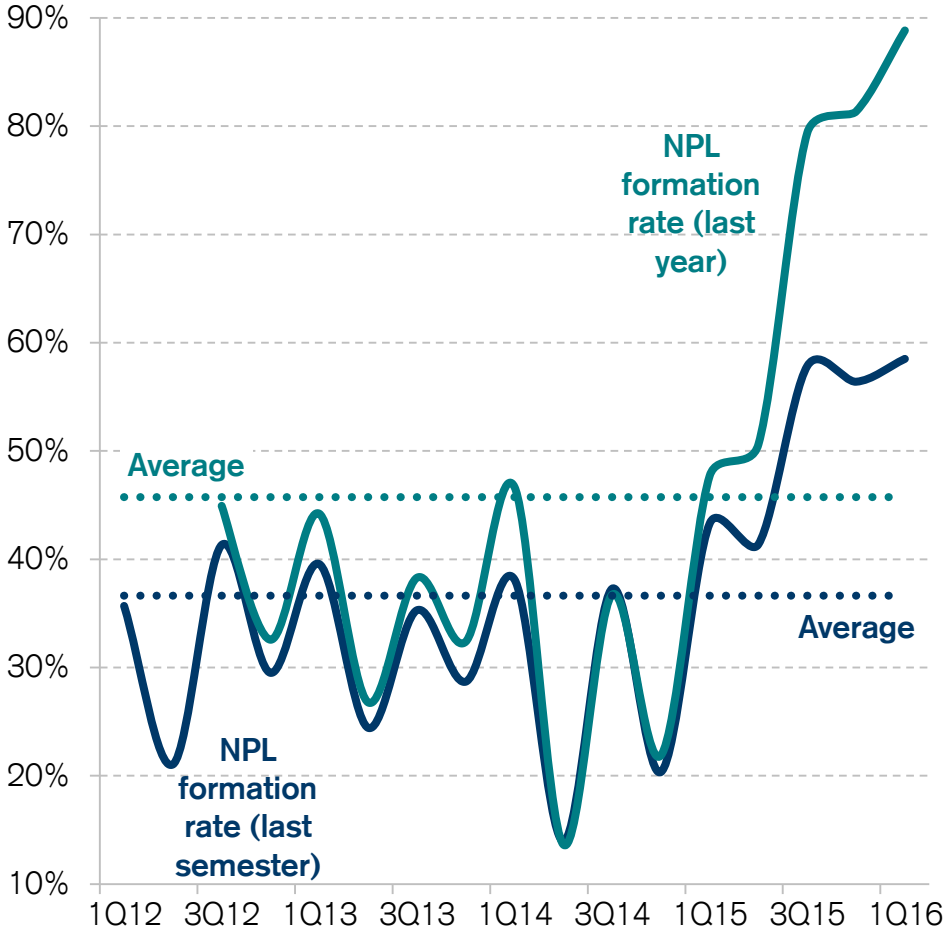
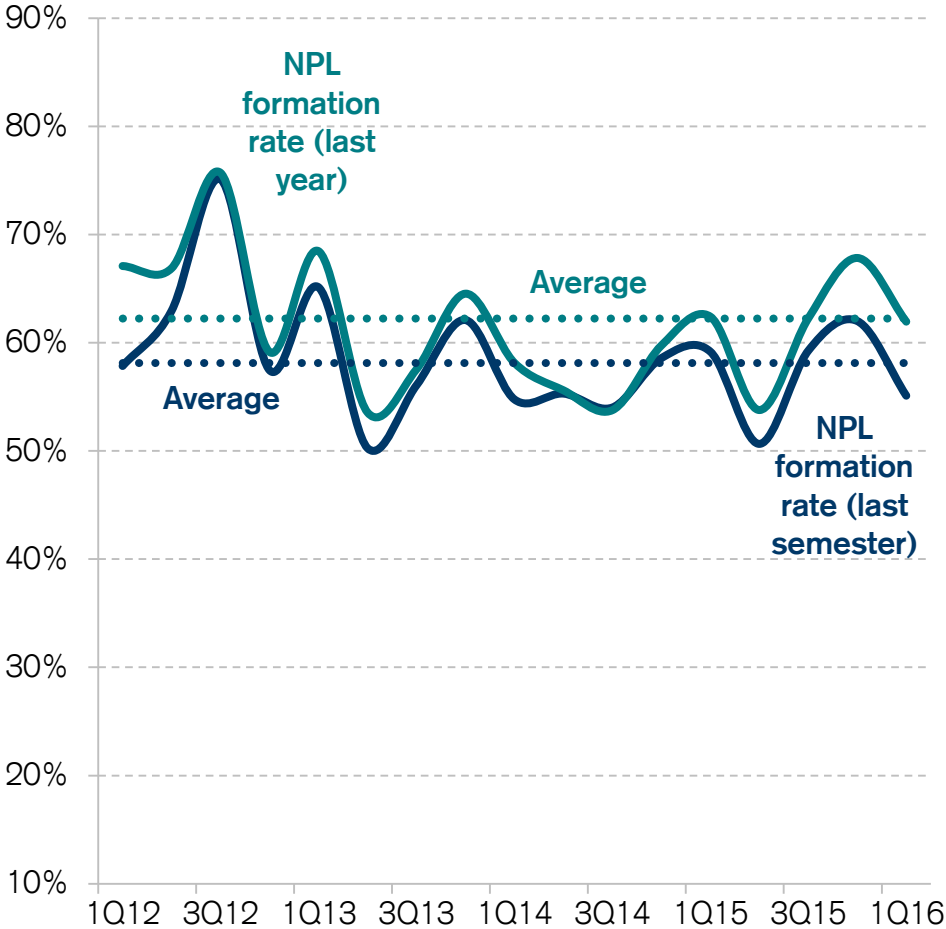
NPL formation rate of the renegotiated portfolio  
(% of BOP performing renegotiated portfolio)



Bradesco



BANCO DO BRASIL

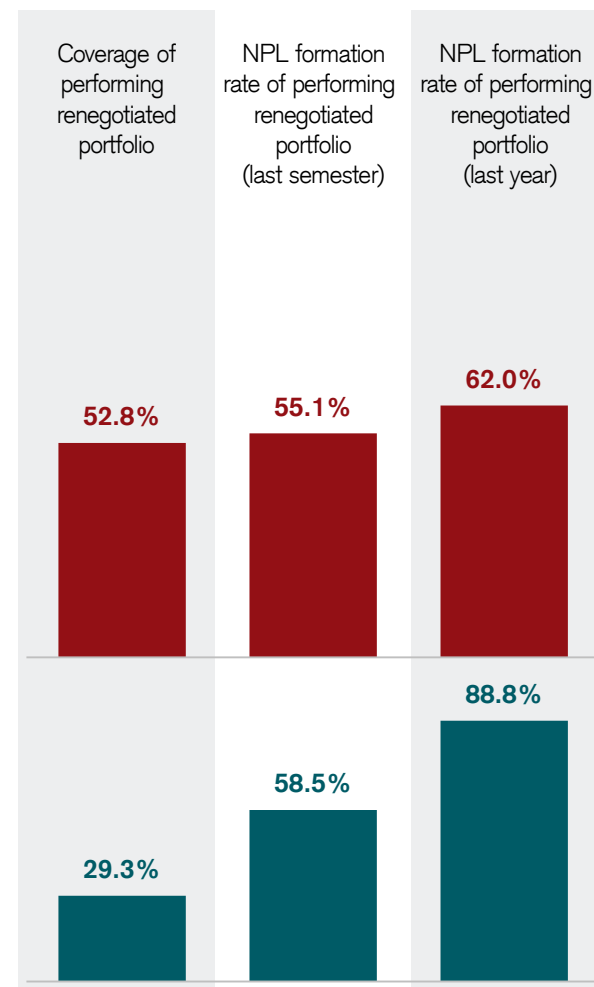
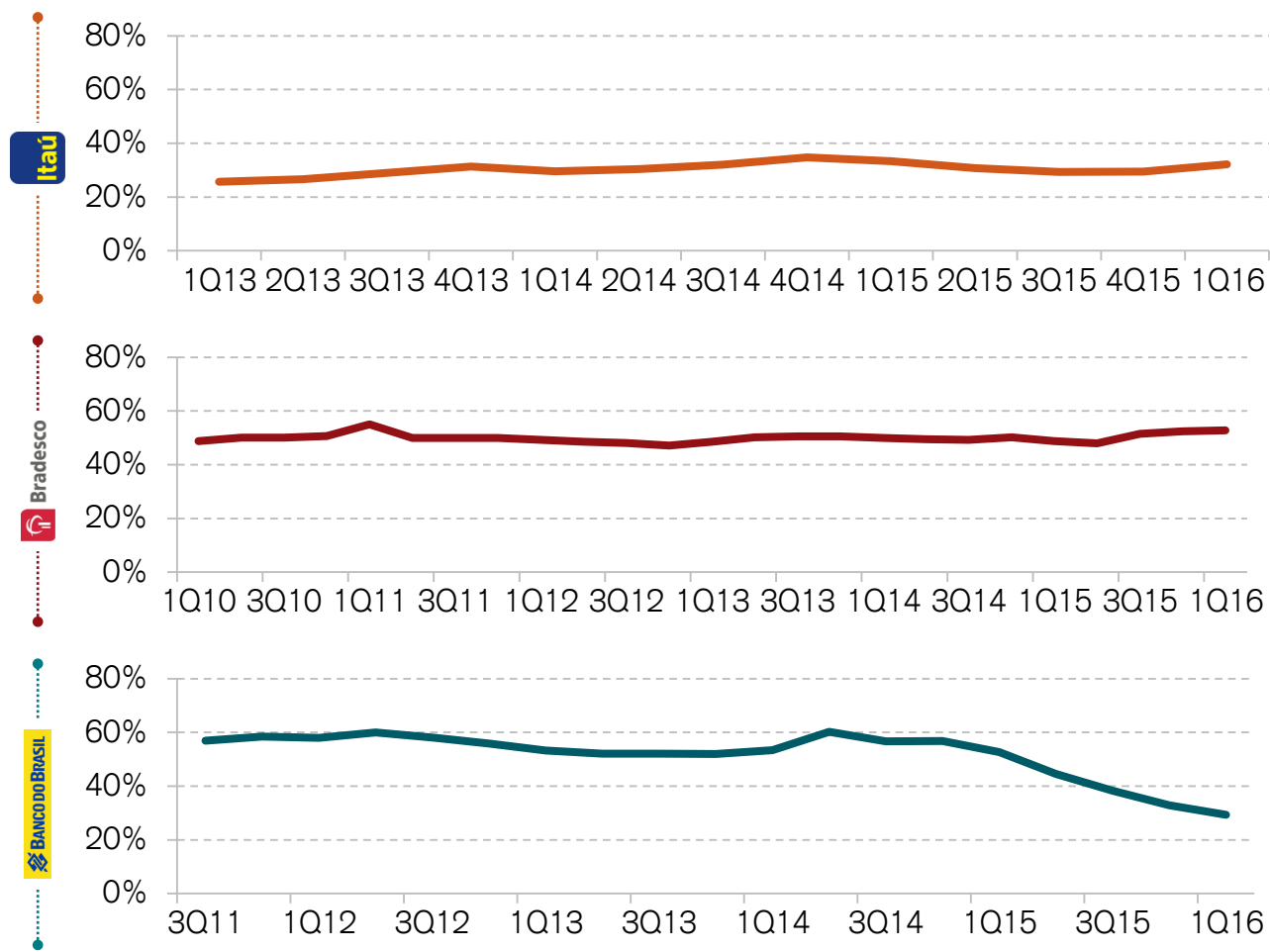


# A look at the coverage of the performing renegotiated portfolio

## Coverage of the performing renegotiated portfolio

(Provisions for renegotiated credit (-) NPL of the renegotiated portfolio) ÷ performing renegotiated portfolio

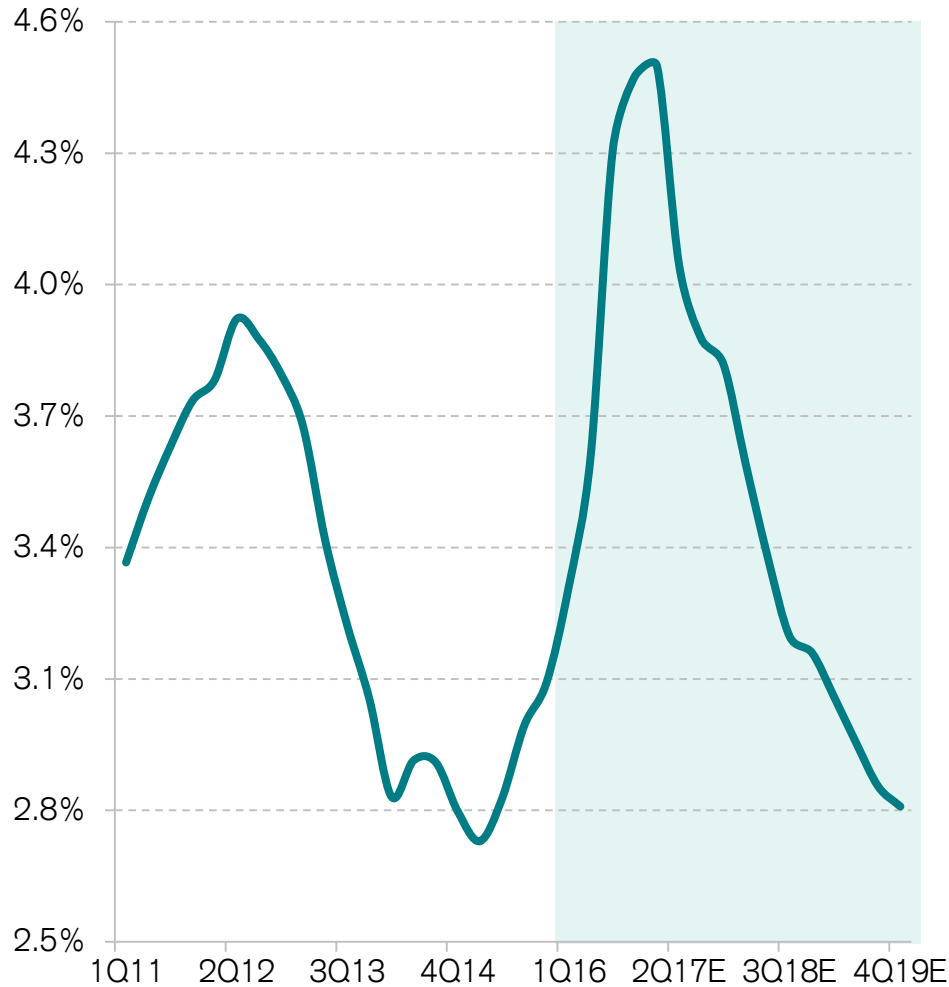
30 days overdue criteria



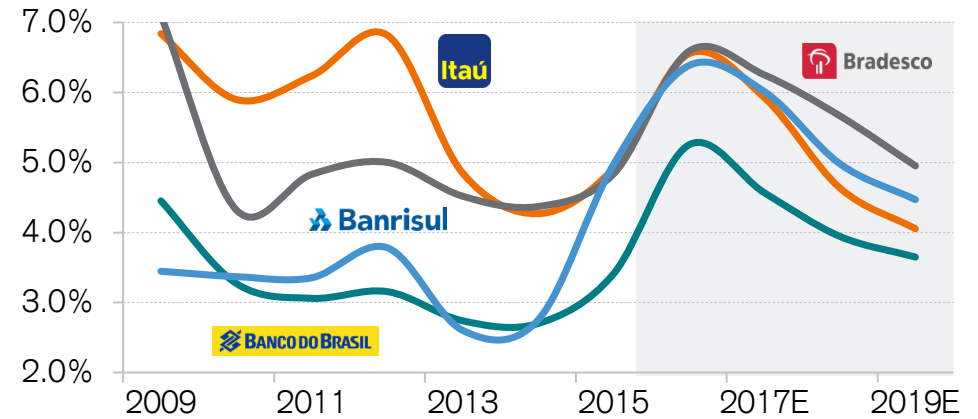


# When should cost of risk and NPLs peak?

CS coverage aggregate quarterly NPL ratio evolution  
% of loans



CS coverage yearly cost of risk evolution  
% of loans

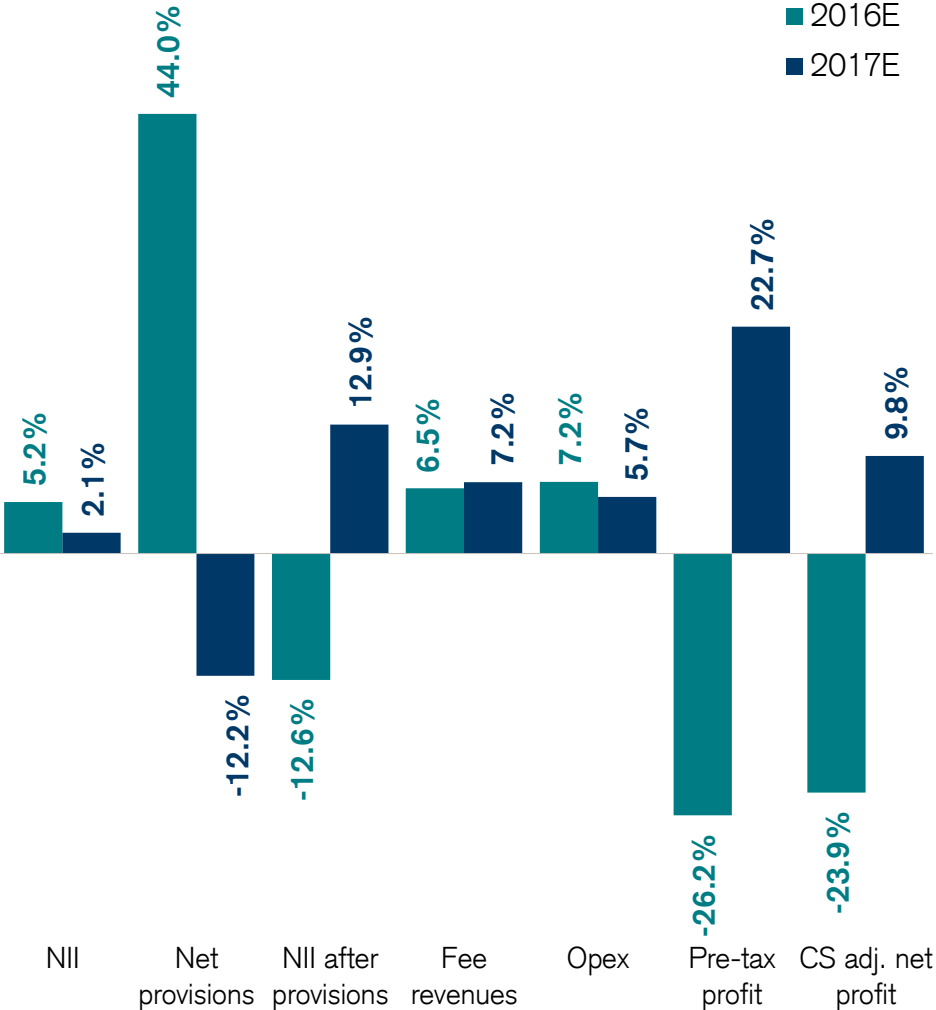


CS coverage aggregate quarterly cost of risk evolution  
% of average loans

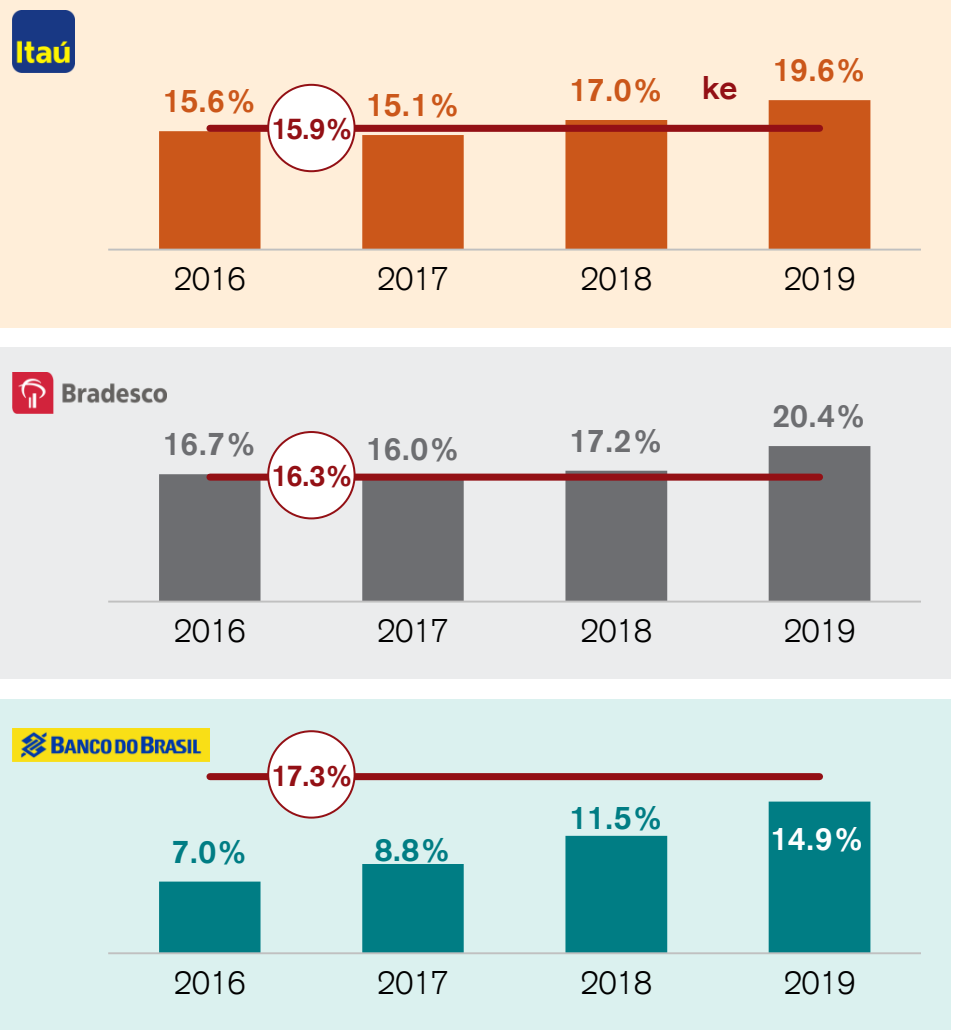


# Returns should remain depressed over the next 18 months

Large-cap banks: Net profit growth breakdown

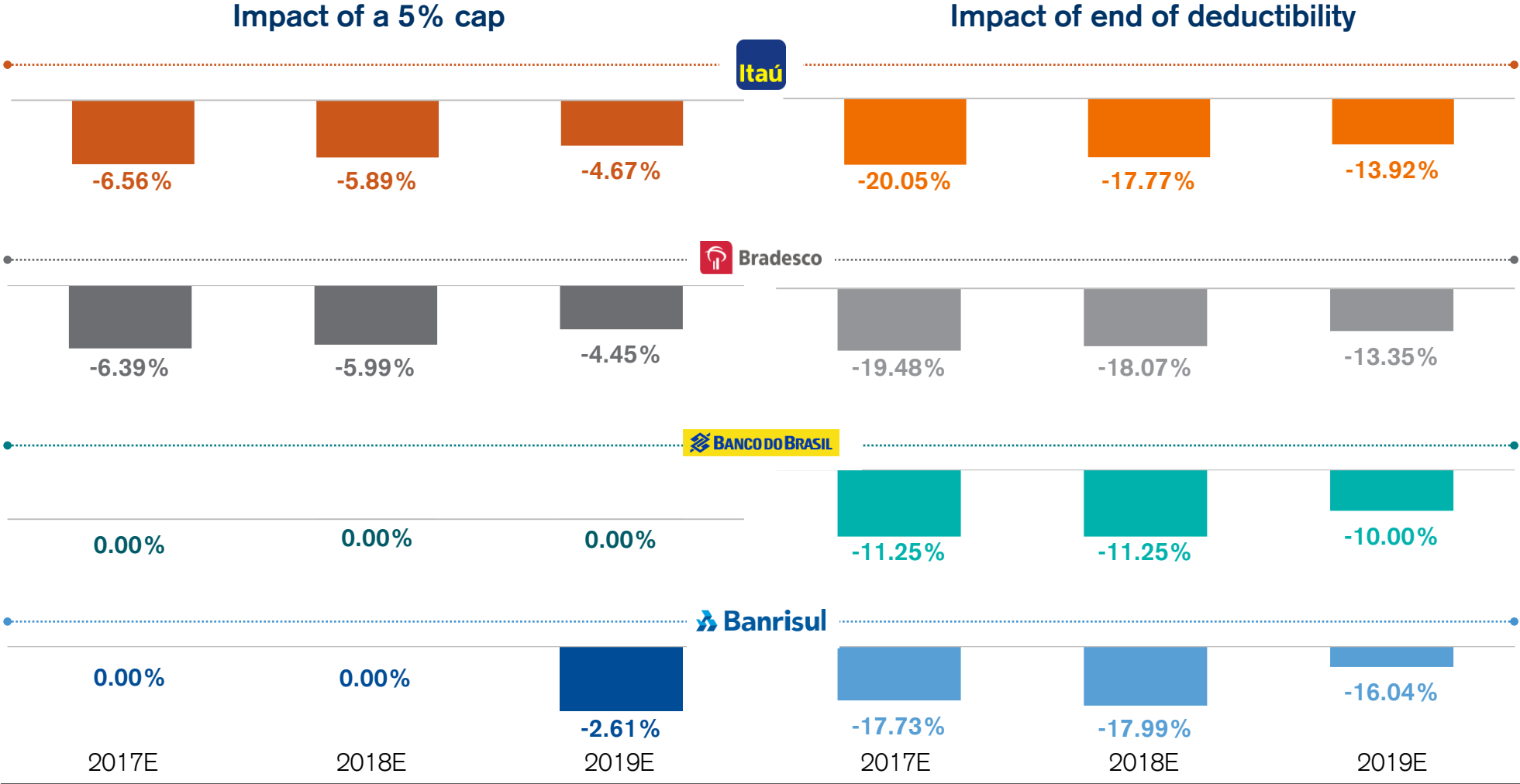


ROE projections vs. cost of equity



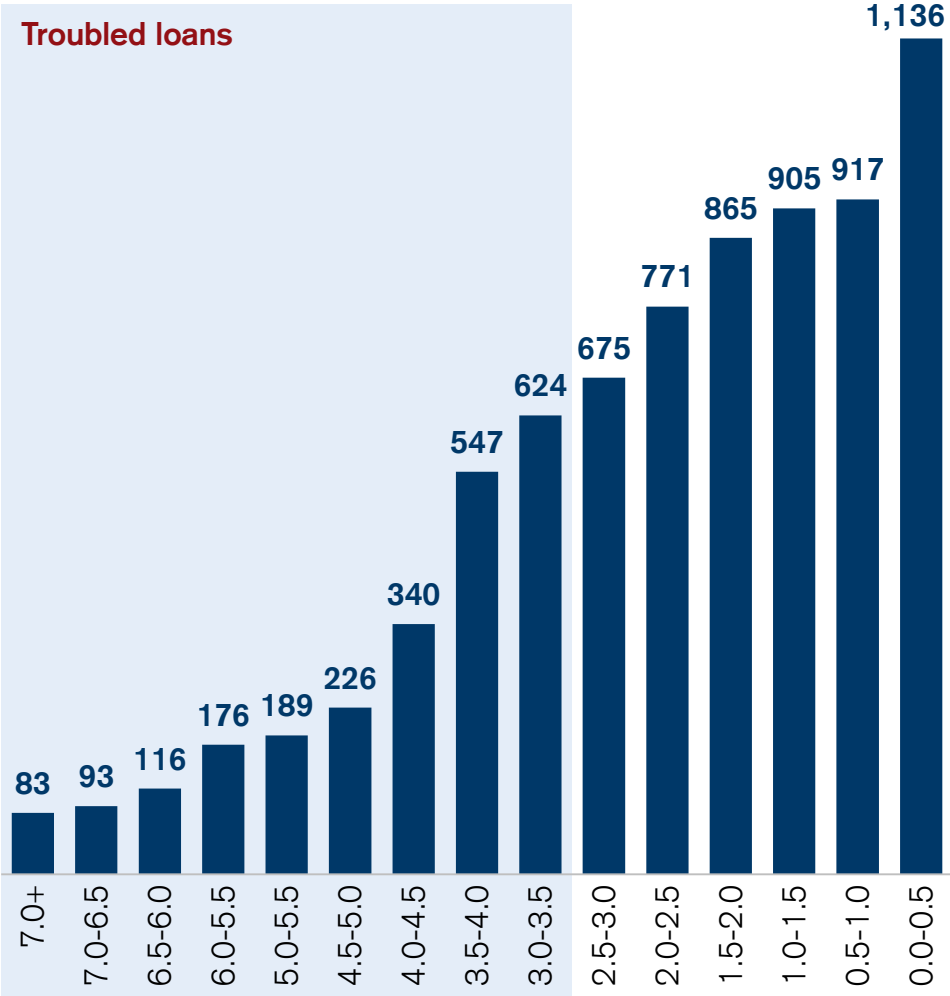
# Higher taxation is the main source of earnings risk in our view

Impact on net income estimates from change in IOC deductibility  
All else held equal



# Estimating problematic large corporate exposure (1)

Gross debt allocated by net debt / Ebitda  
(R\$ billion; cumulative)

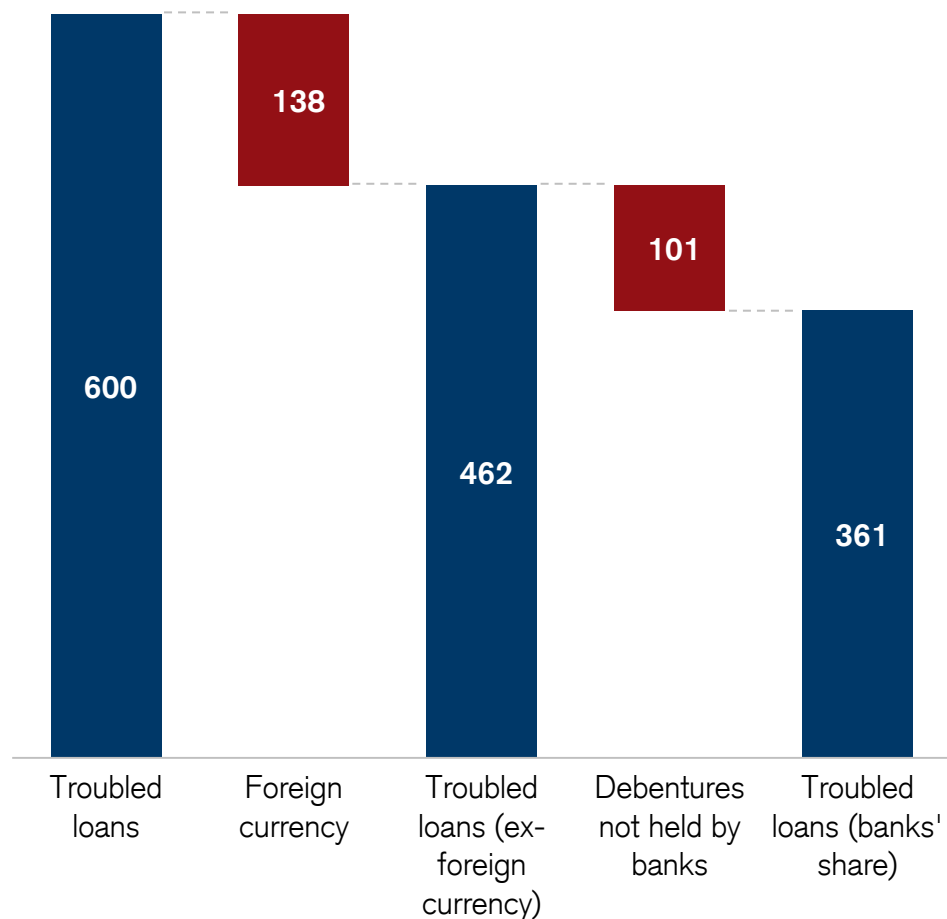


Gross debt allocated by interest coverage  
(R\$ billion; cumulative)



# Estimating problematic large corporate exposure (2)

**Banks' exposure to troubled loans**  
(R\$ billion)



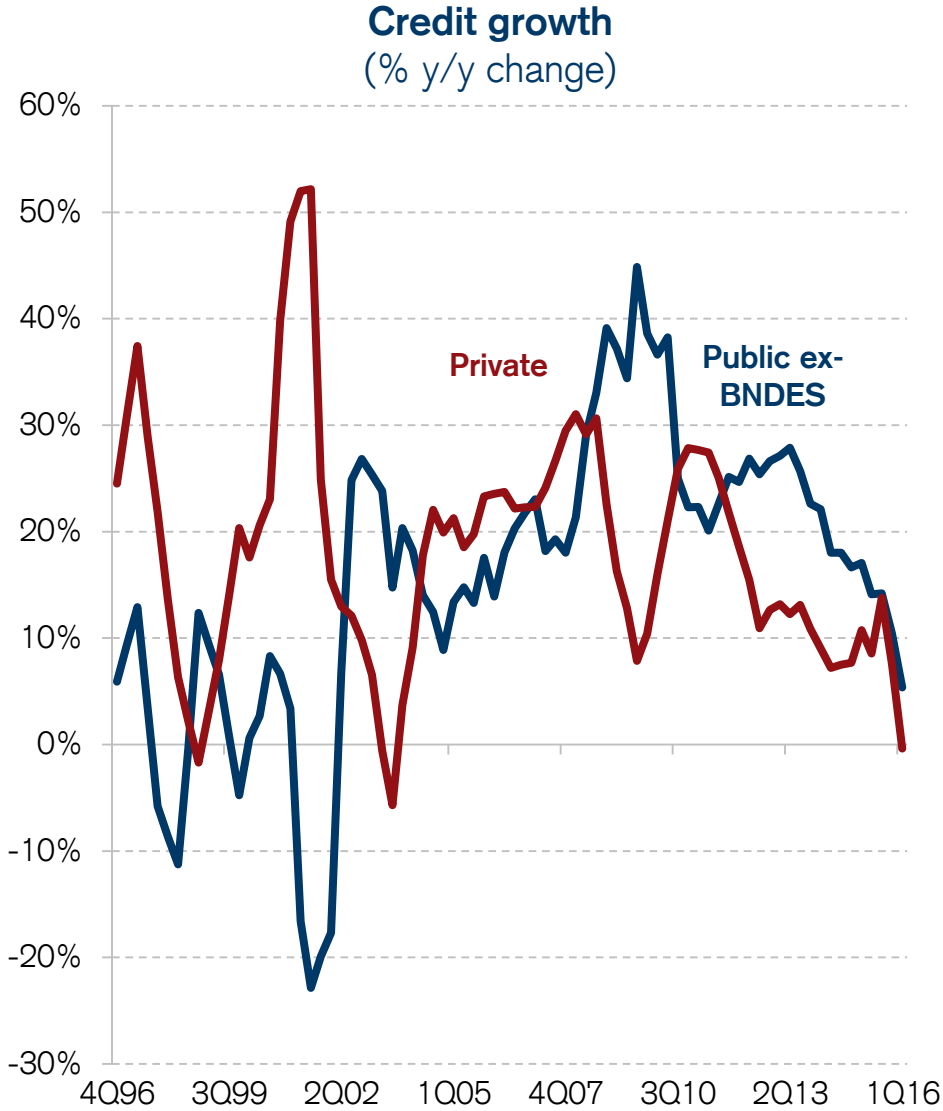
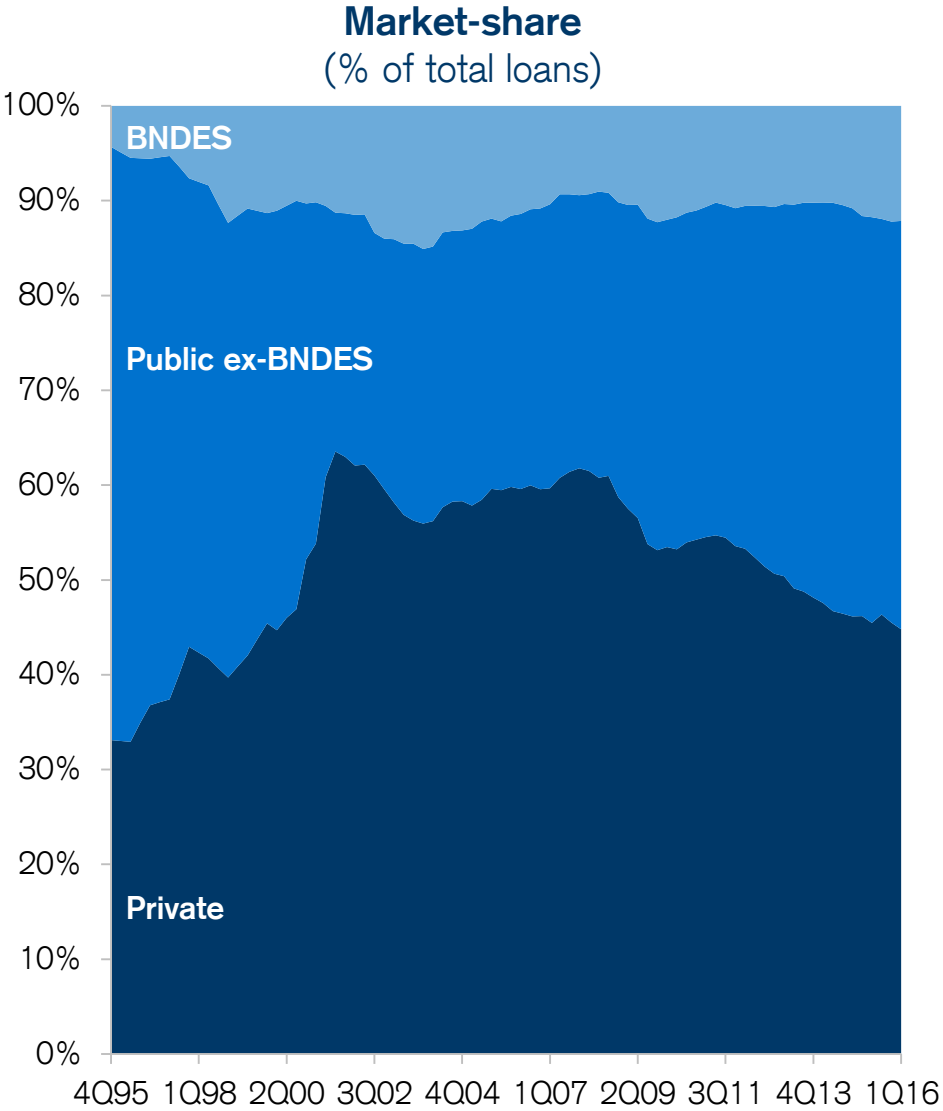
**Coverage of troubled loans**  
(R\$ million)

	Public	Private	Total
(a) Total provisions	80,376	109,714	190,090
(b) 90-day NPL retail	20,638	43,228	63,866
(c) 90-day NPL SME	27,431	25,554	52,985
<b>(d) Corporate provisions (a - b - c)</b>	<b>32,308</b>	<b>40,931</b>	<b>73,239</b>
(e) Troubled loans	238,799	122,127	360,926
<b>(f) Exposure (e - d)</b>	<b>206,491</b>	<b>81,196</b>	<b>287,687</b>
(g) Equity	162,287	451,425	613,712
<b>% of equity</b>	<b>127%</b>	<b>18%</b>	<b>47%</b>



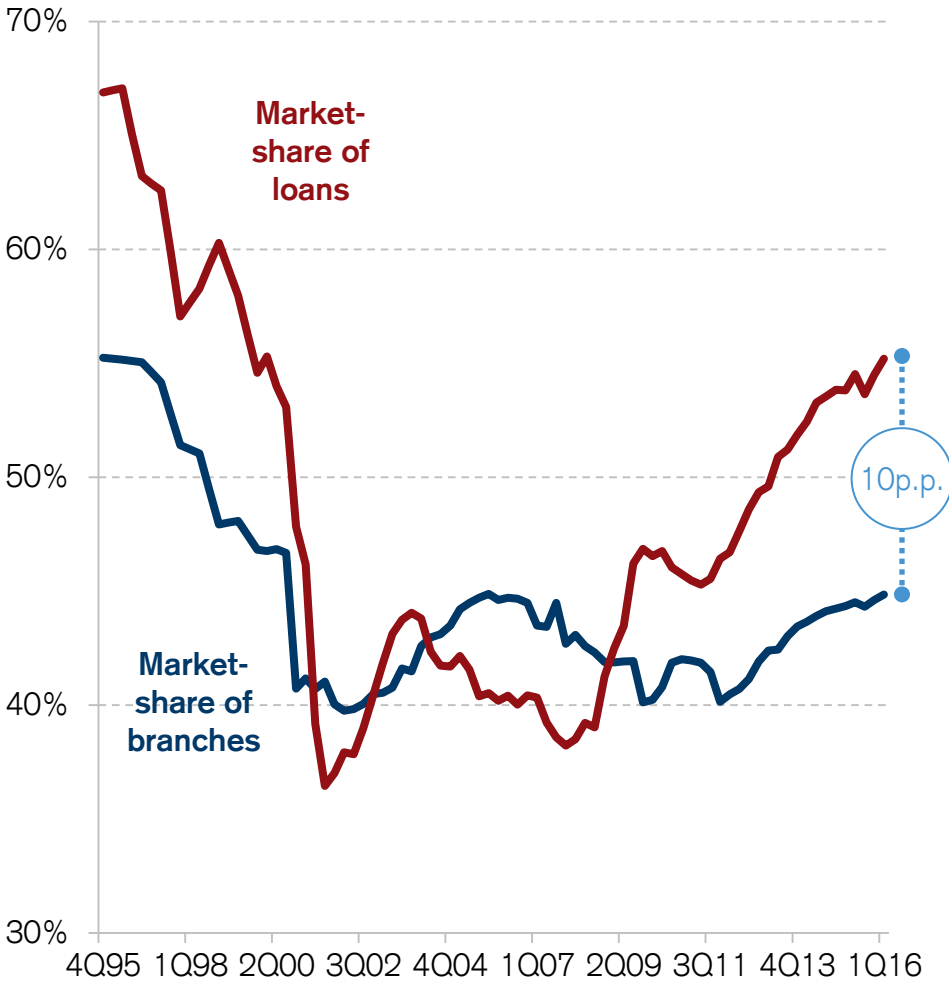
# An x-ray of public-sector banks

# Public-sector banks market-share gains slowing down

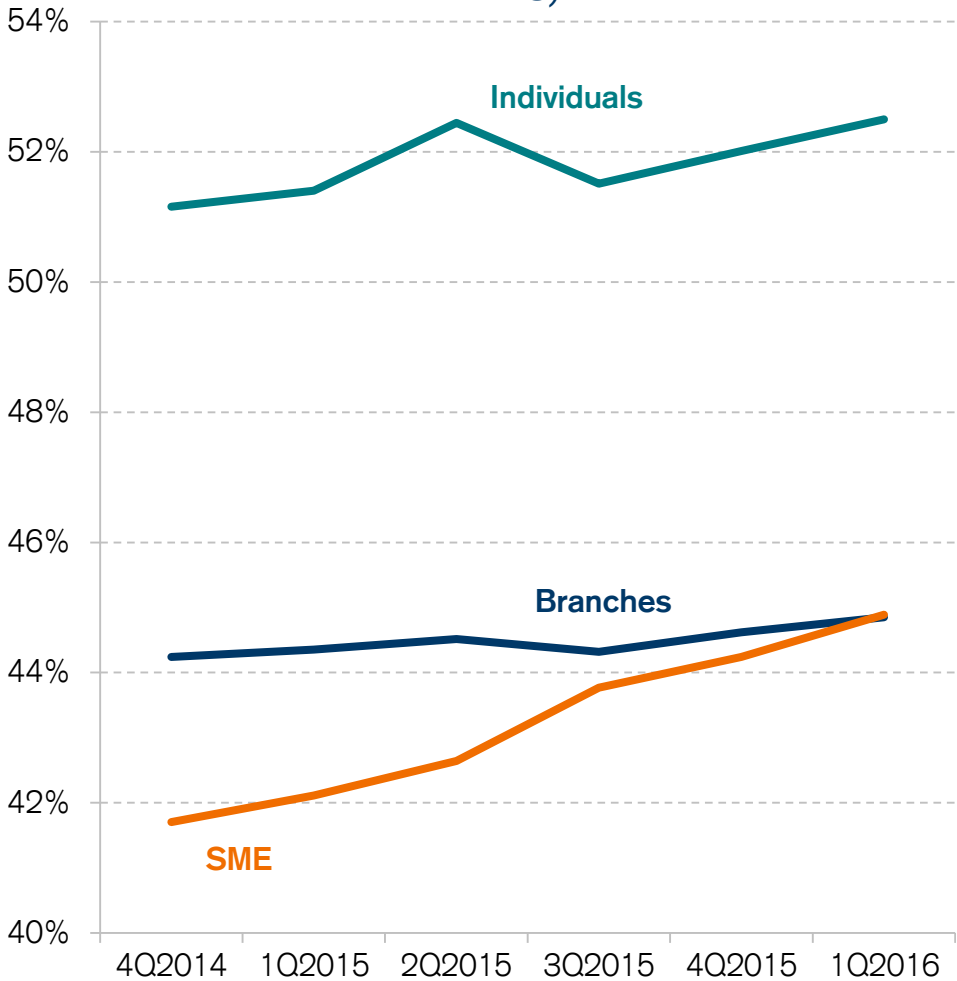


# Loan market-share decoupling from branches footprint

**Market-share of public banks**  
(% of total loans and branches, ex-BNDES)



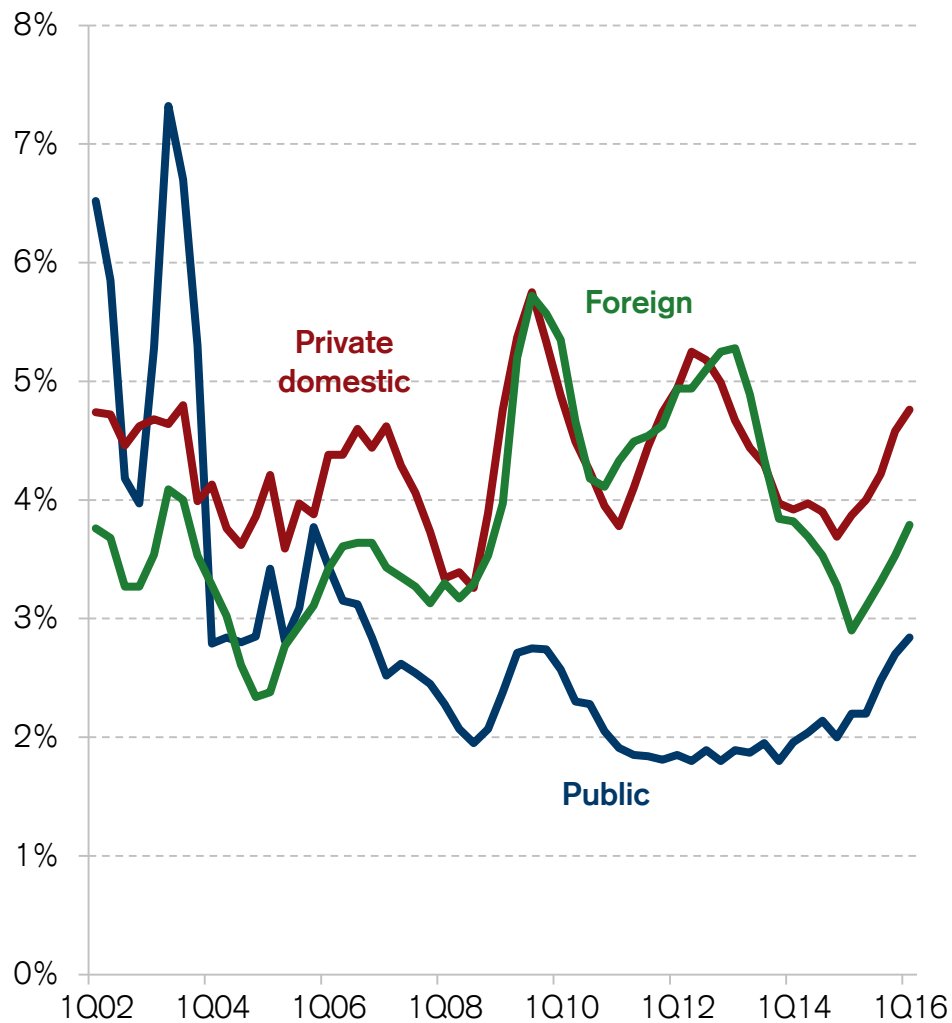
**Market-share of public banks**  
(% of individuals and SME loans and branches, ex-BNDES)



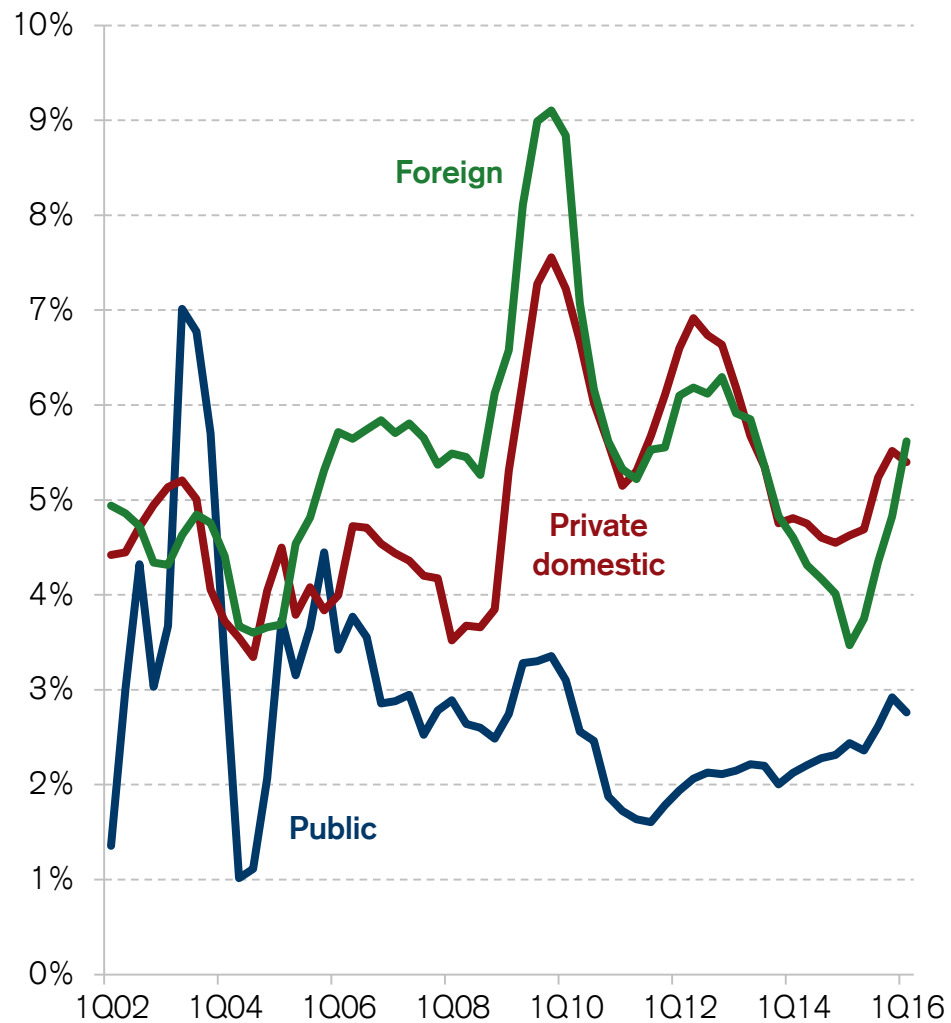


# Asset quality gap is narrowing

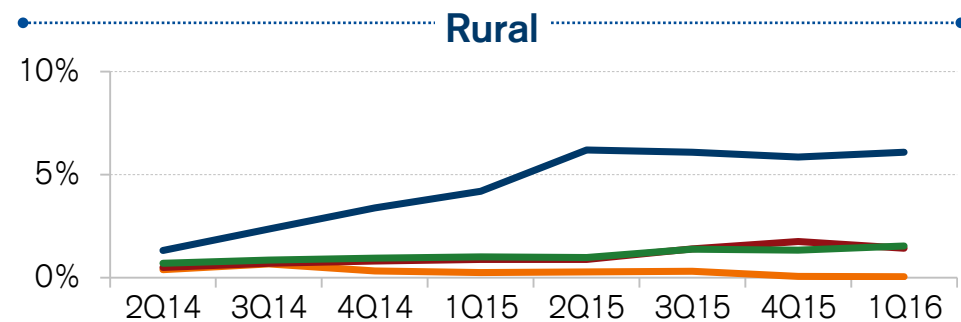
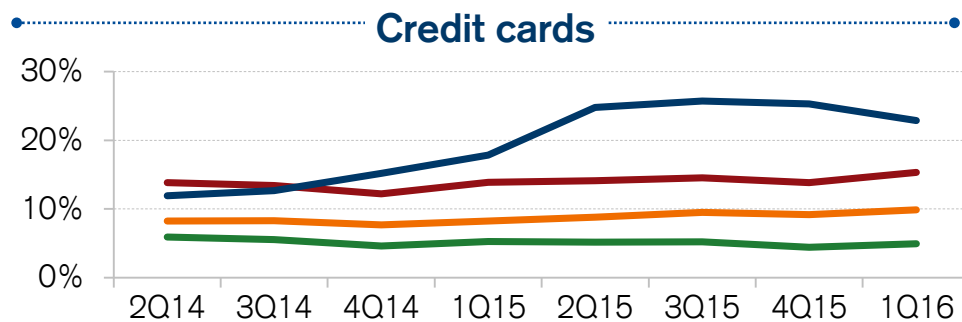
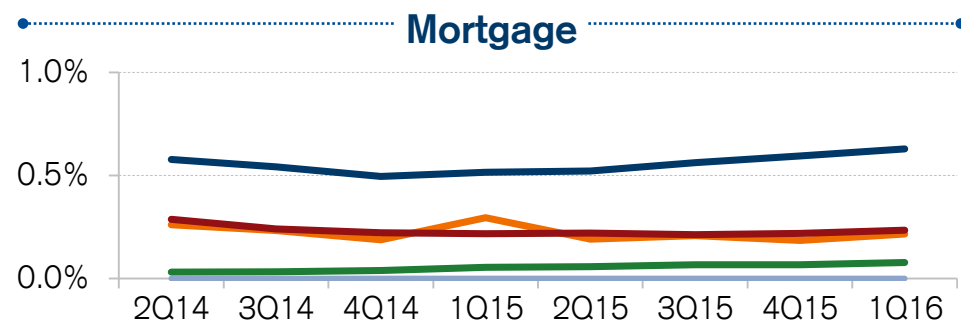
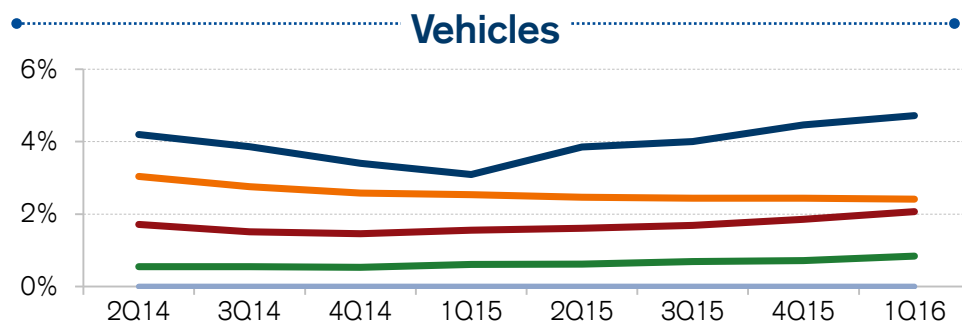
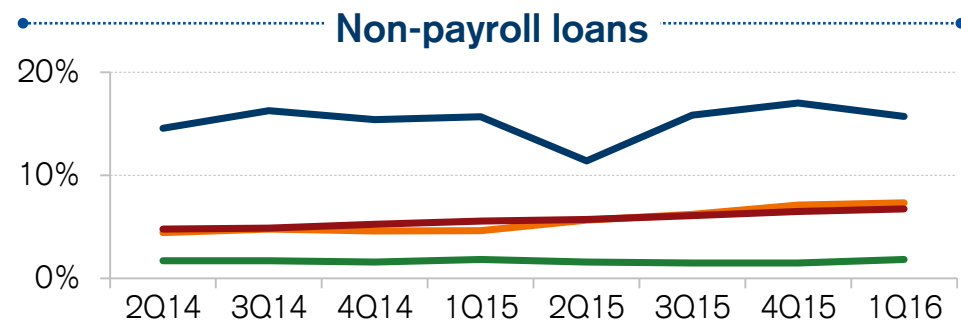
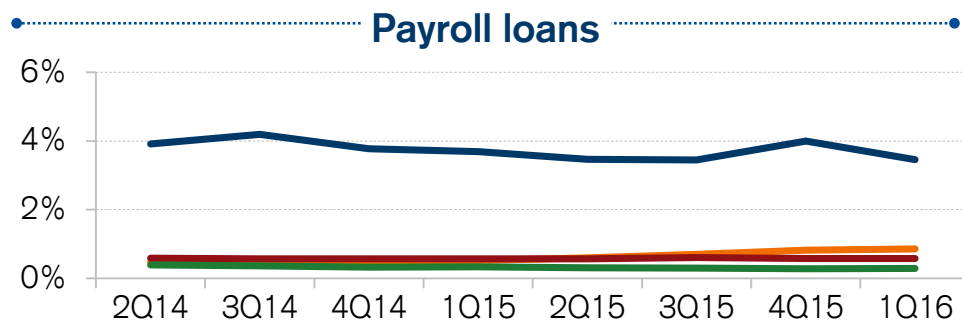
## 90-day NPL (% of total loans)



## NPL formation rate (% of total loans)

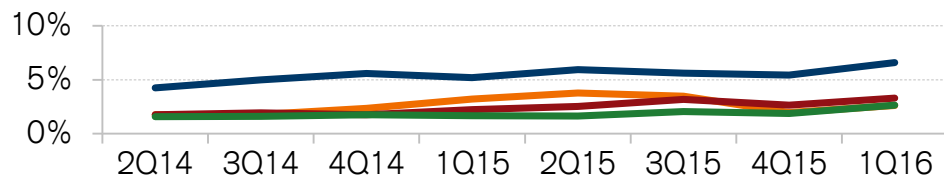


# Asset quality product-by-product (Retail)

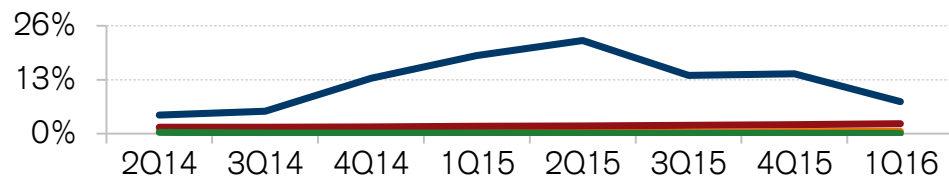


# Asset quality product-by-product (Corporate)

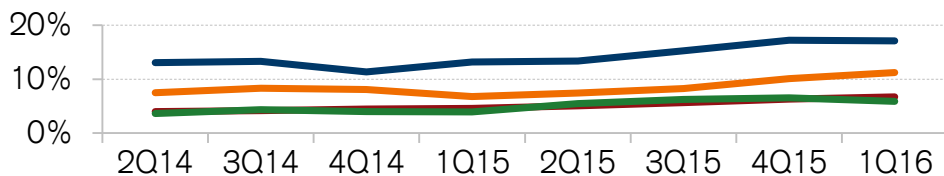
Working capital



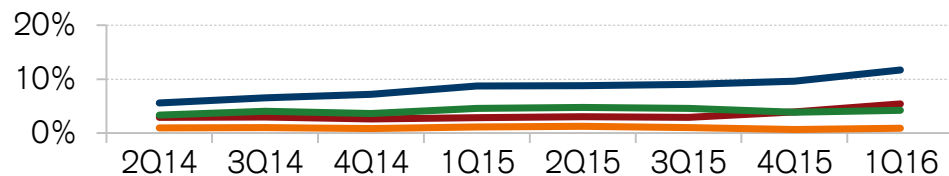
Investments



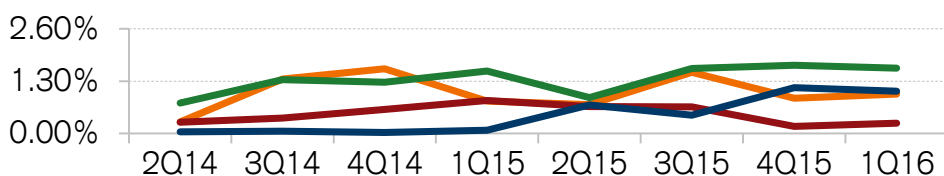
Working capital - Revolving



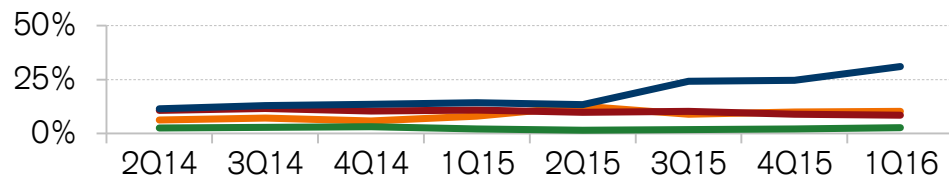
Pre-payment of receivables



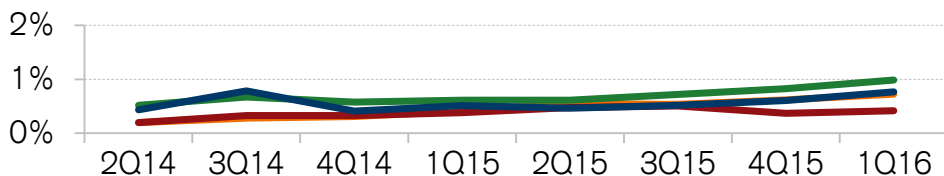
Foreign trade



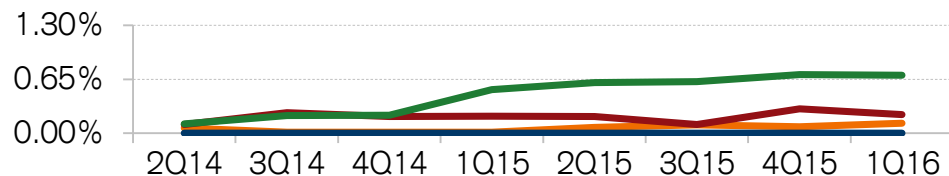
Others



Infrastructure

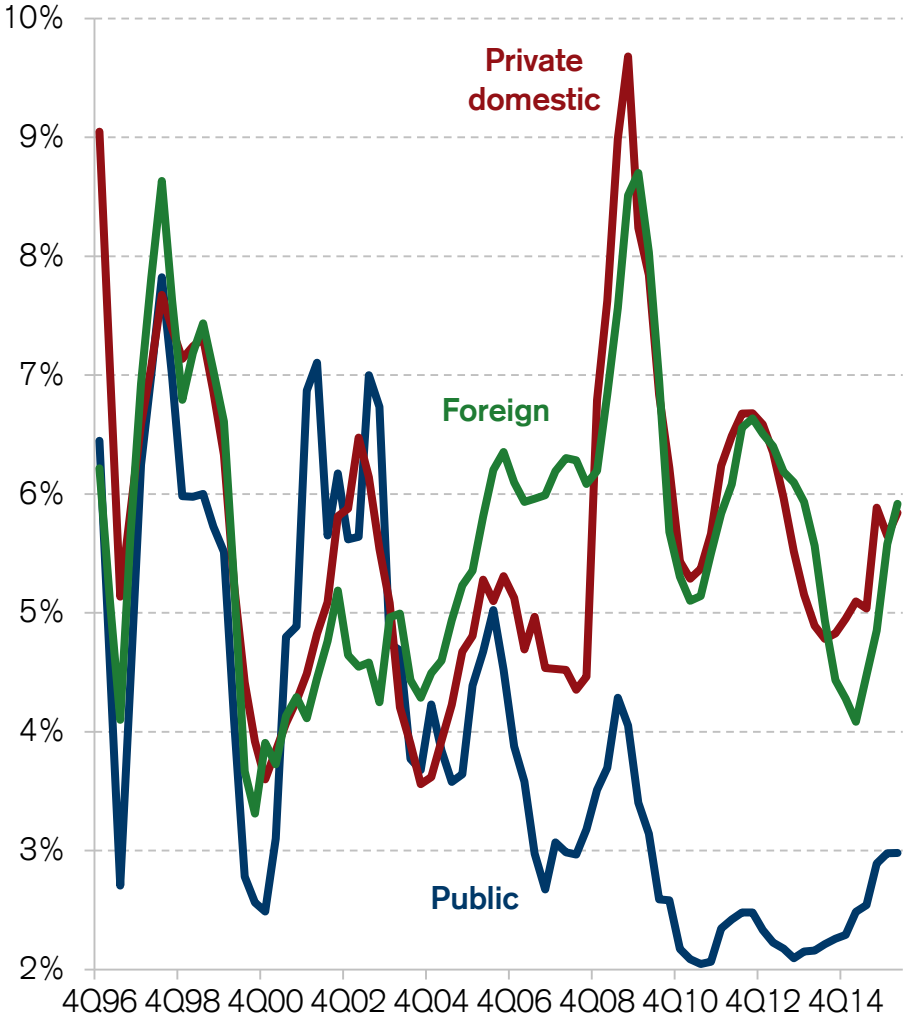


Rural

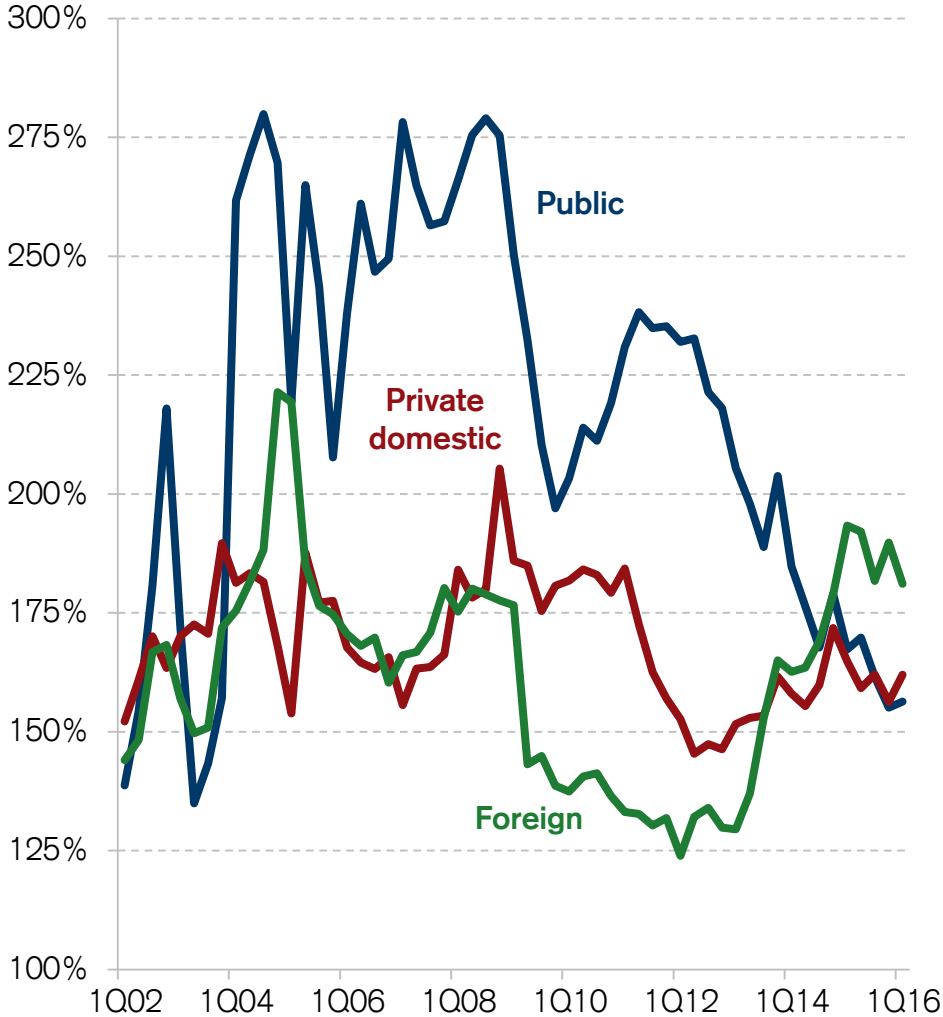


# Lower cost of risk partially explained by lower coverage

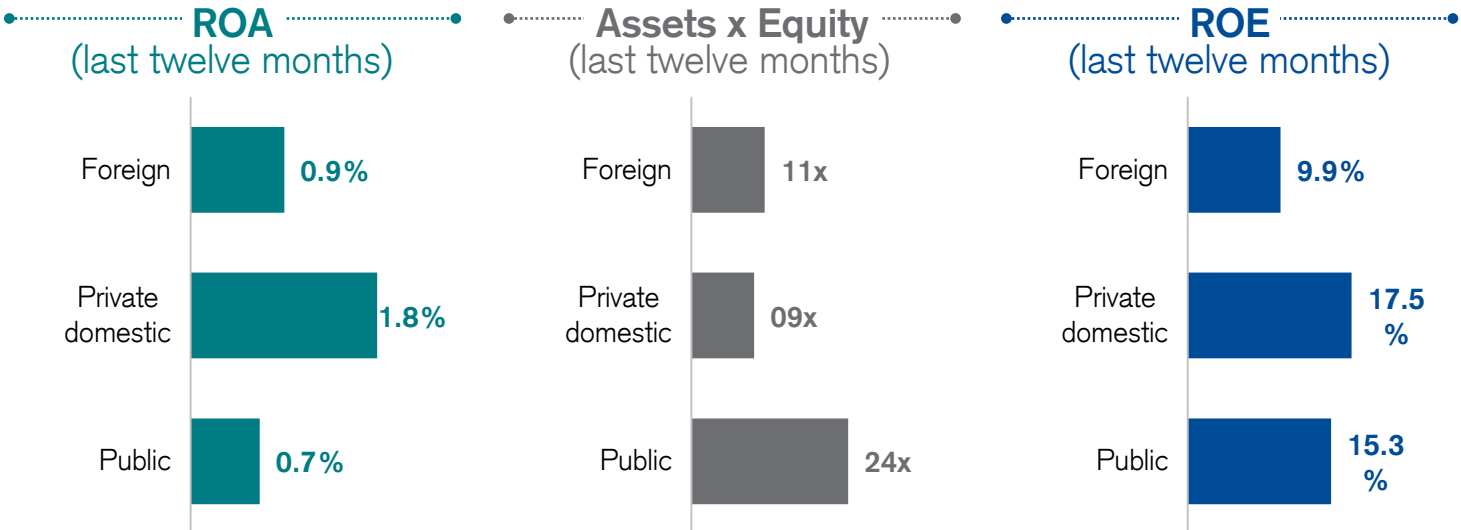
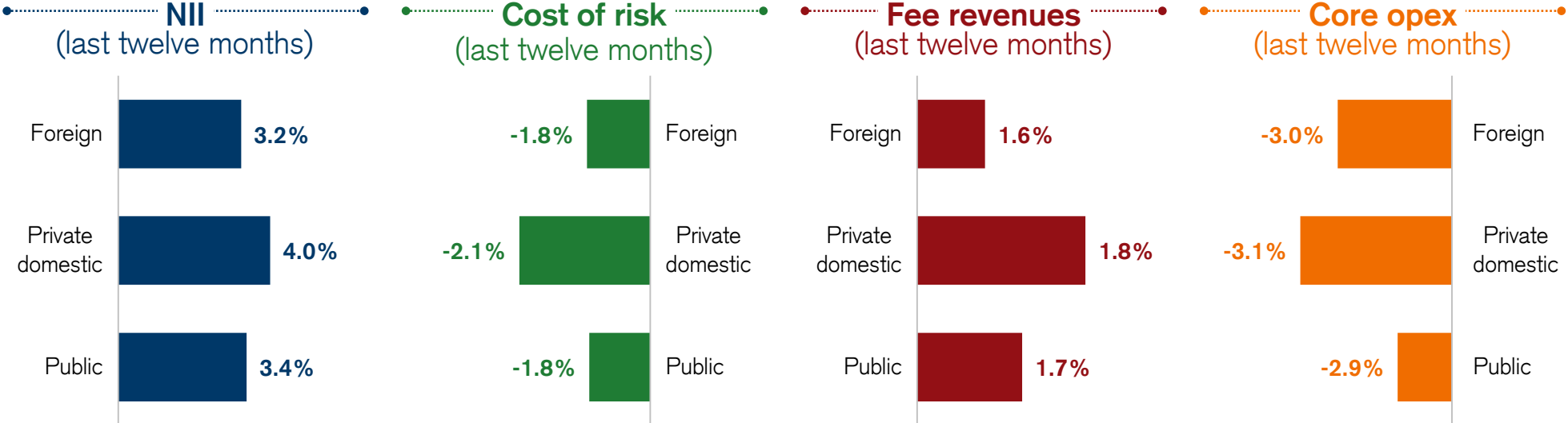
Cost of risk (% of average loans)



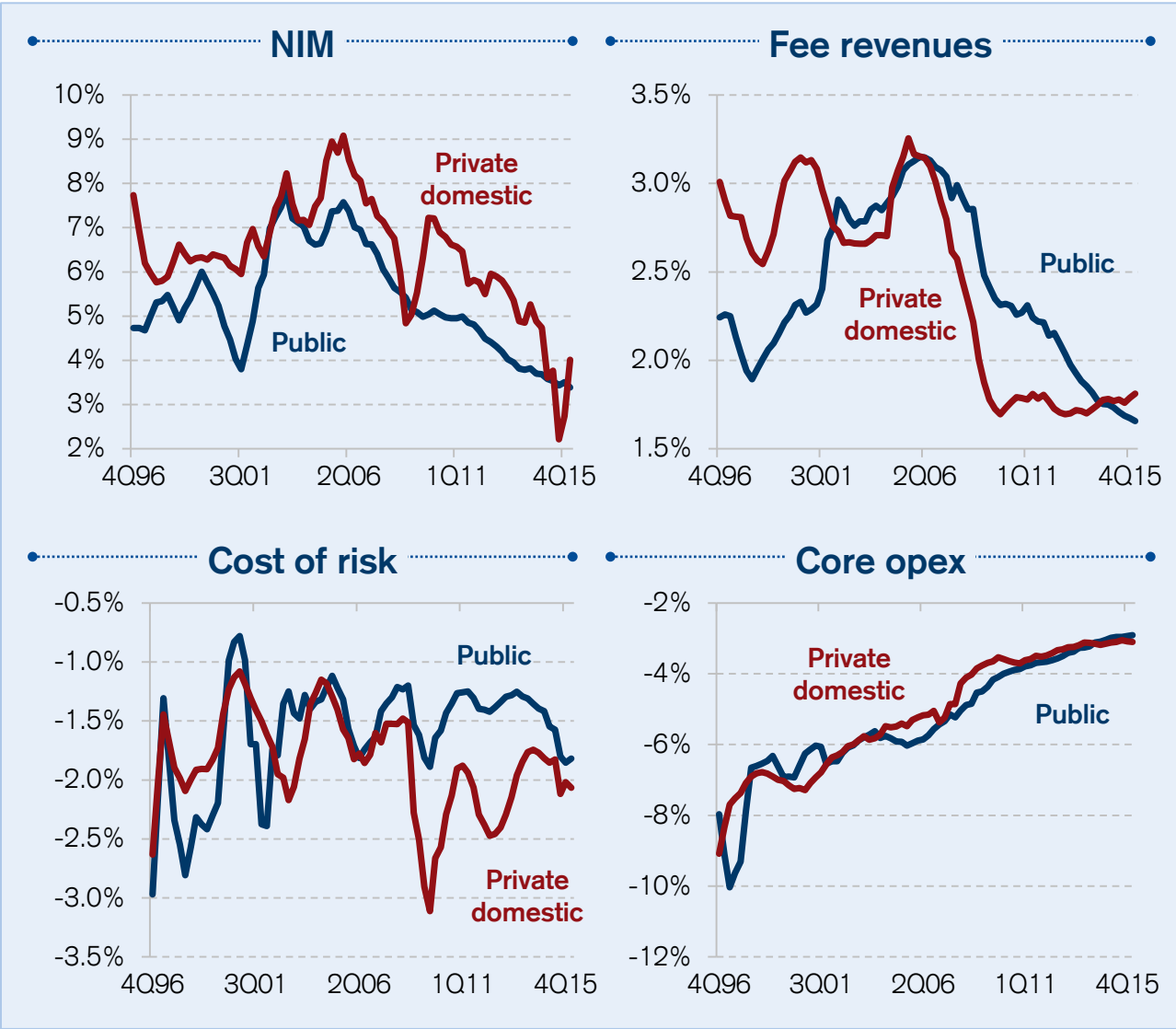
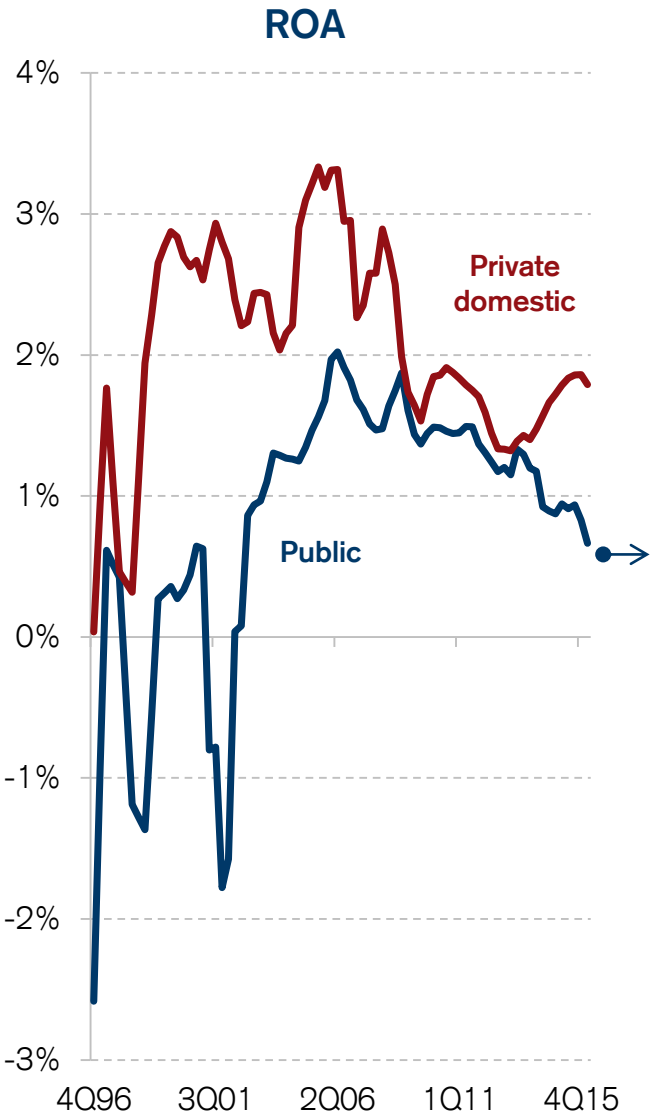
Coverage (% of 90-day NPL)



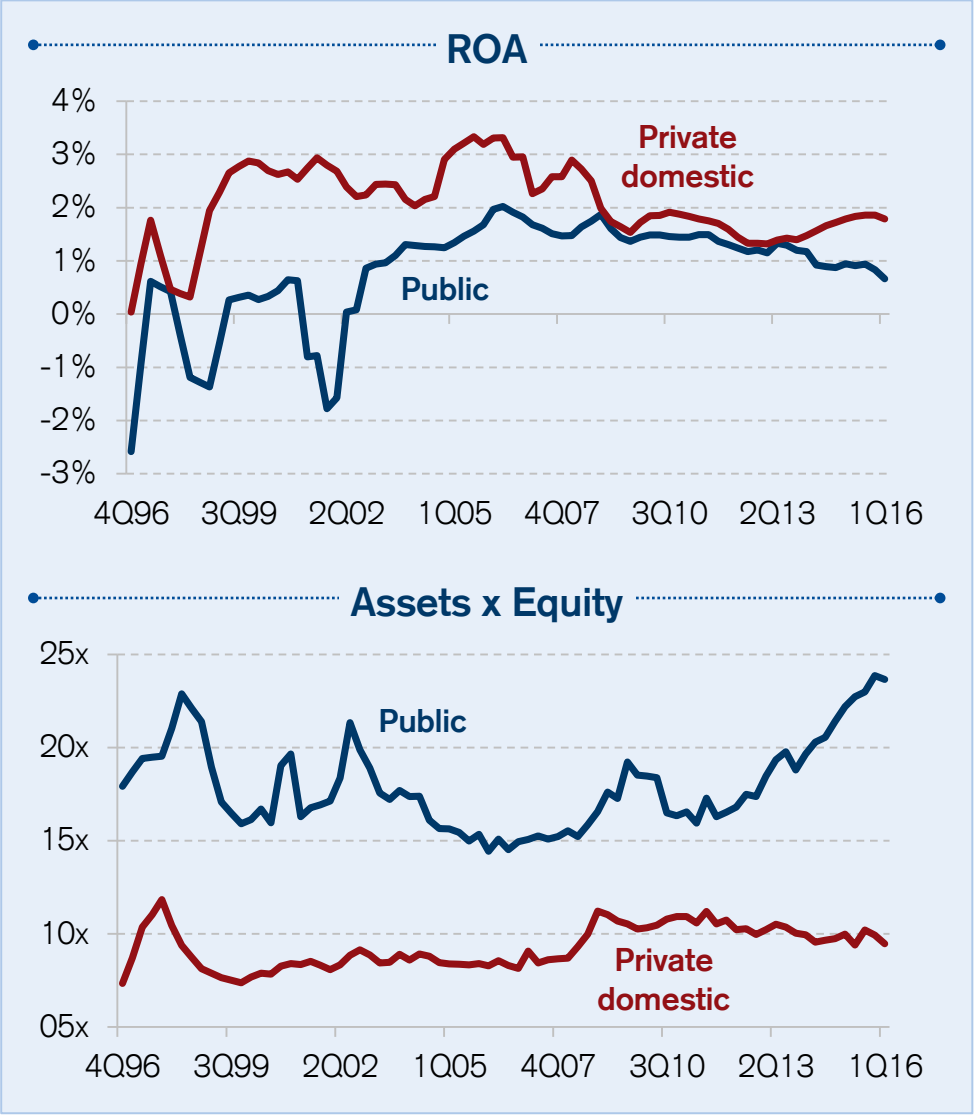
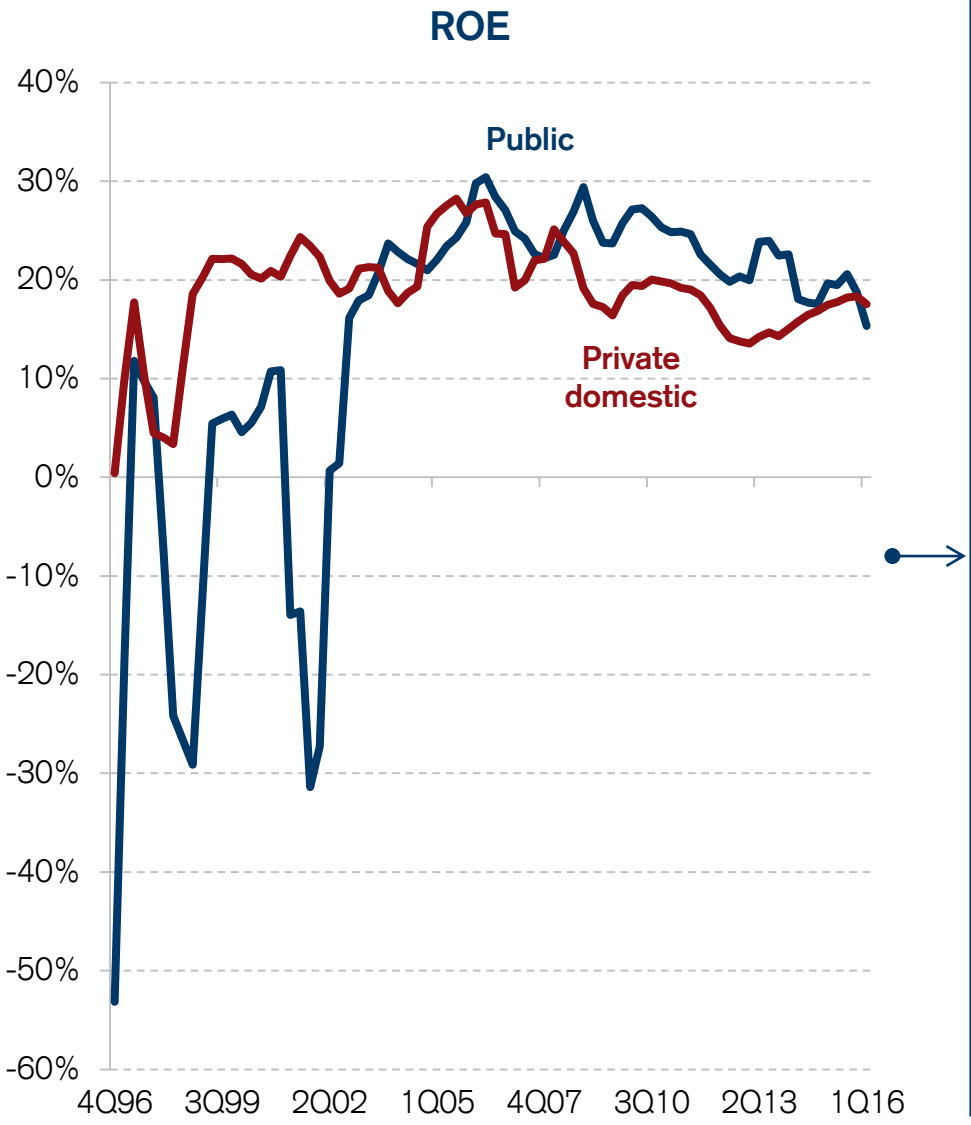
# ROE decomposition



# ROA decomposition: Making less with more

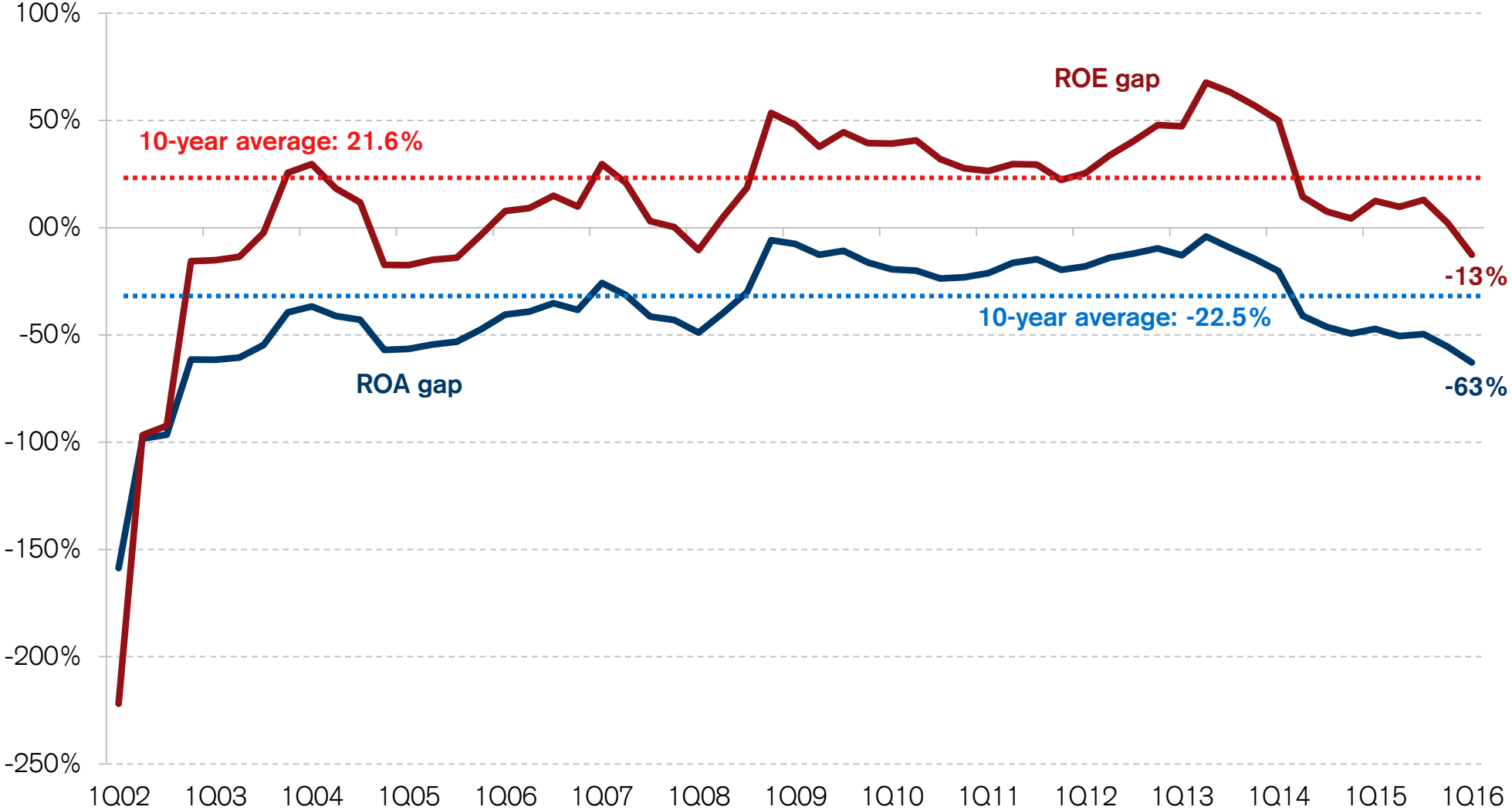


# ROE decomposition: Higher leverage helping ROE



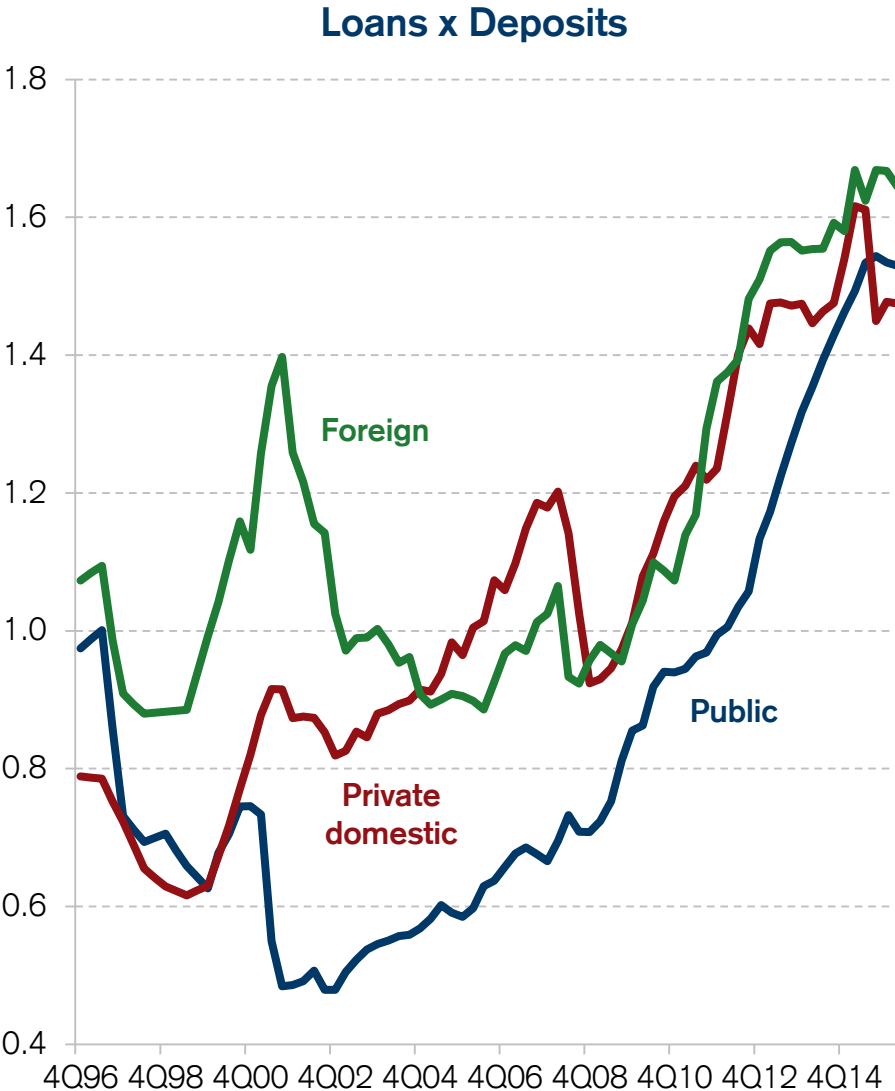
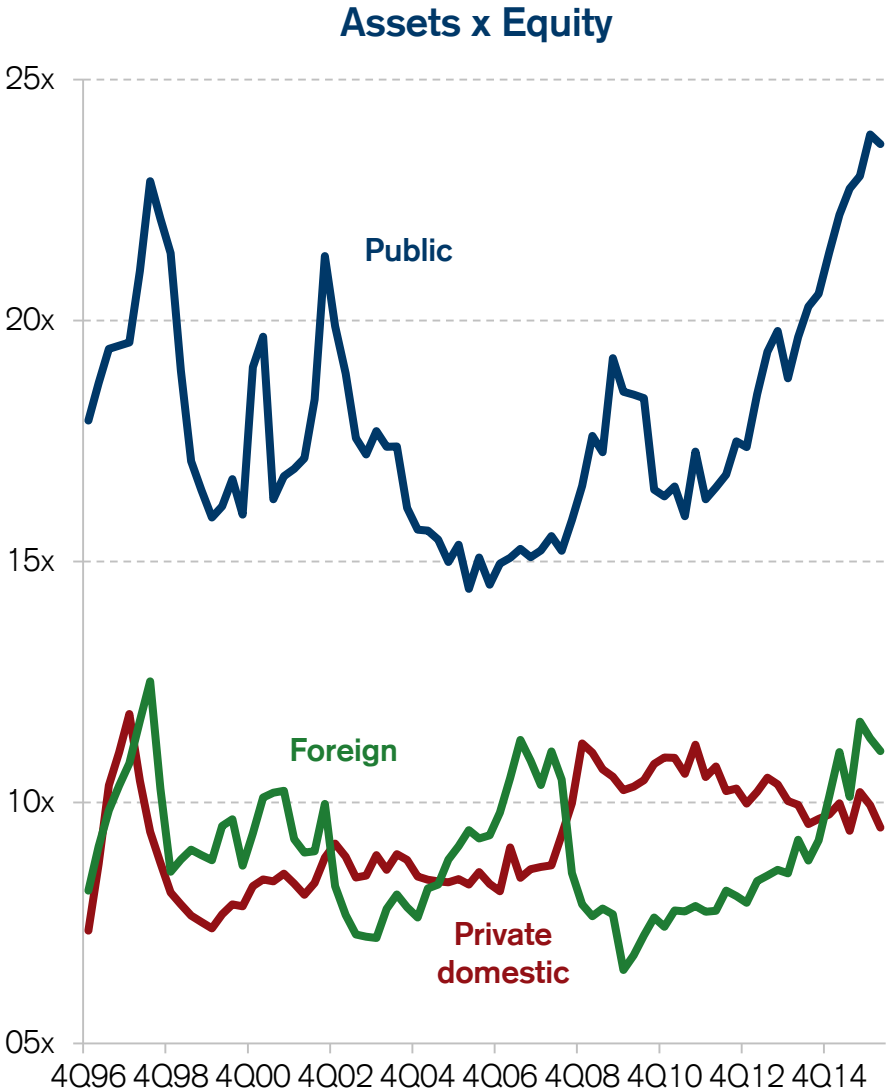
# Profitability gap to private-sector peers widening

ROE/ROA of public-sector banks vs. ROE/ROA of domestic private-sector banks





# Pick-up in leverage and loans-to-deposits ratio

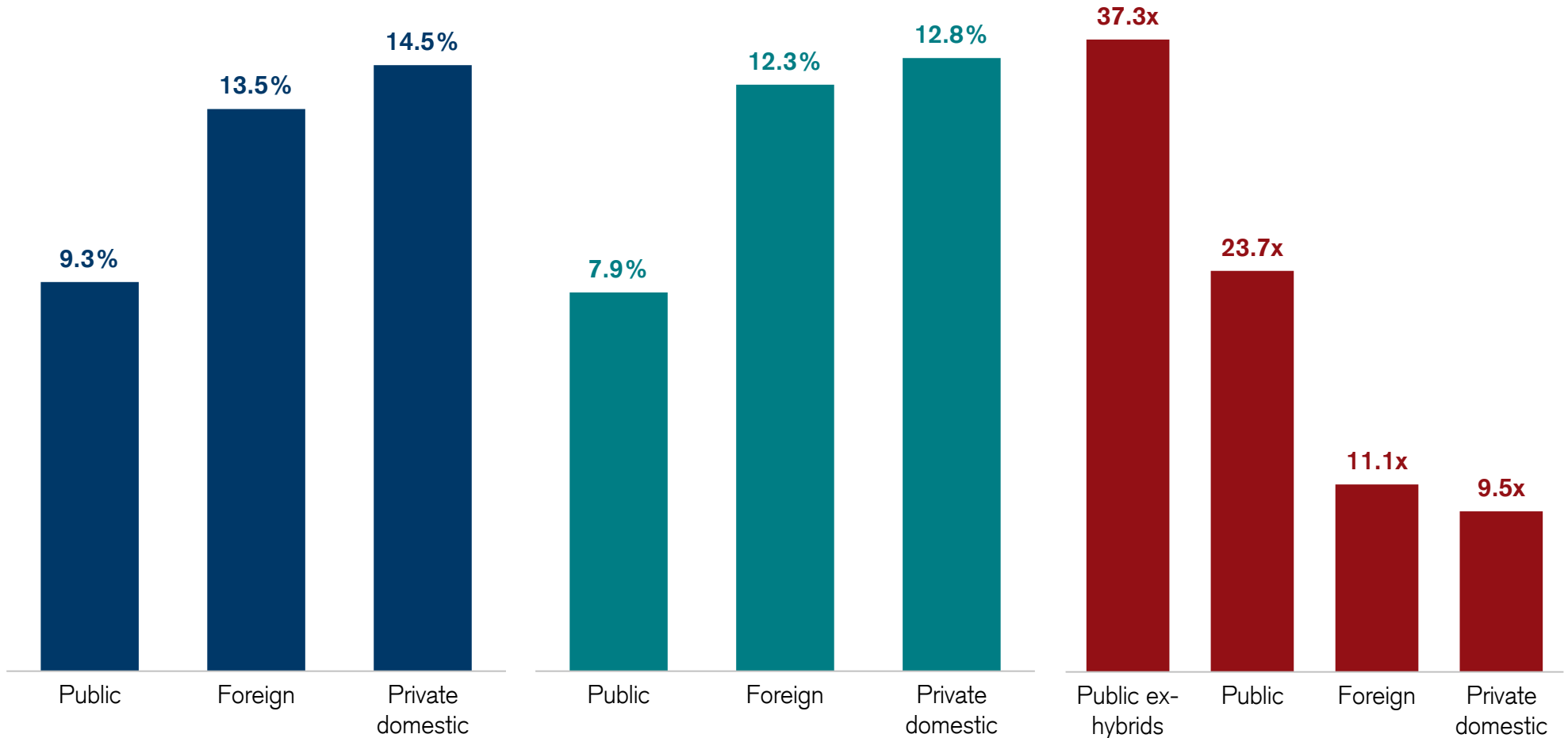


# A look at system's capital position

**CET-1 of public-sector banks**  
(as of 2Q16)

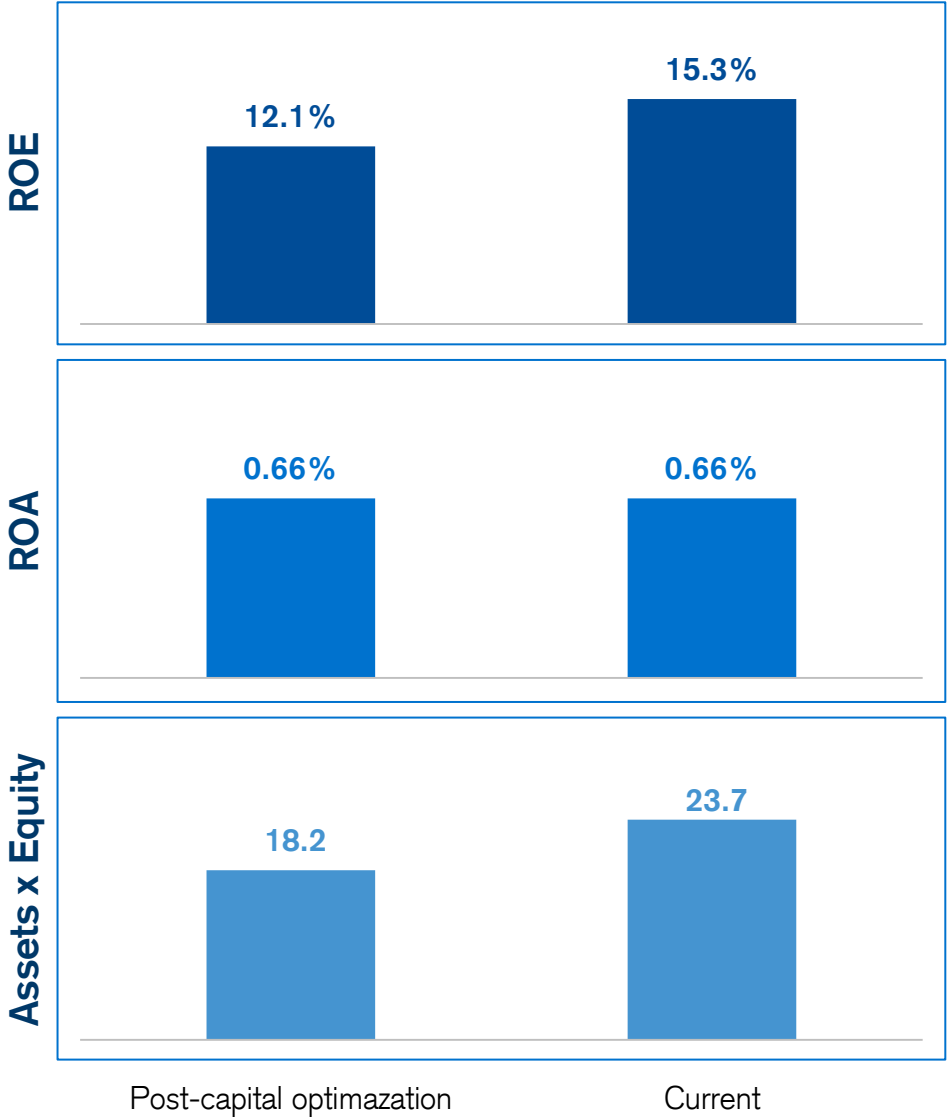
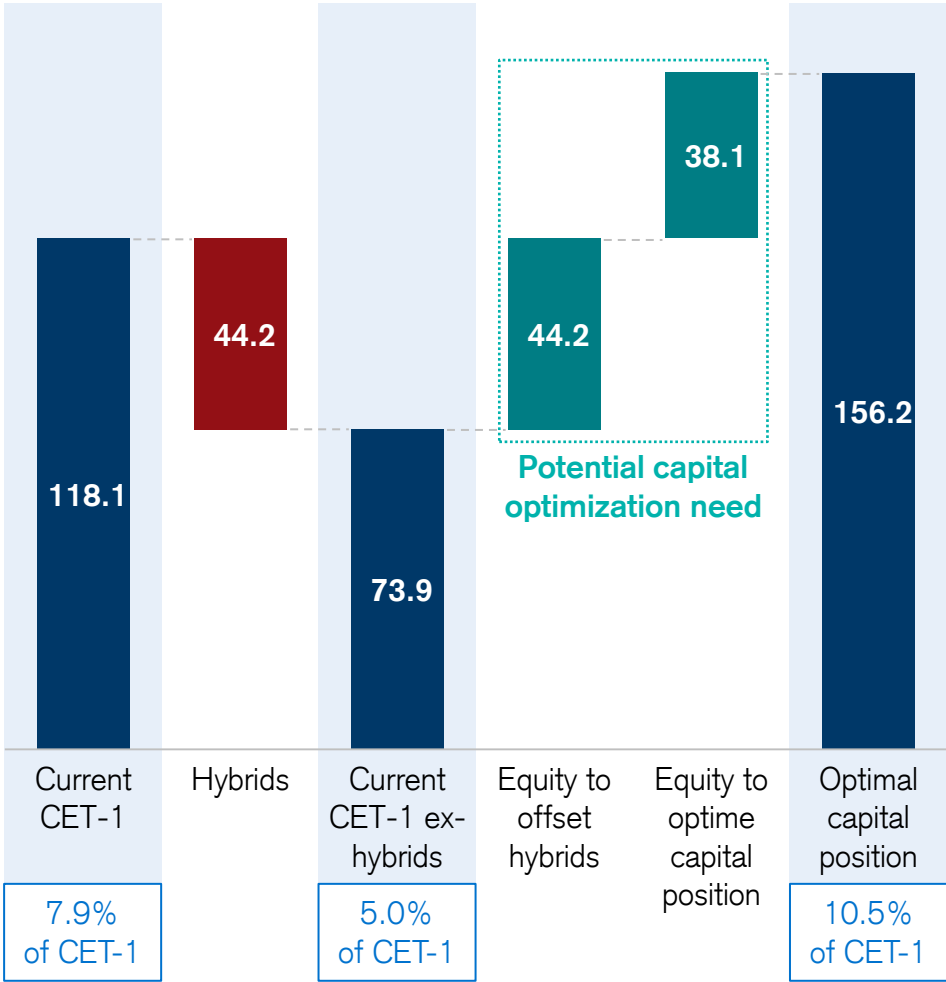
**Fully-loaded CET-1 of public-sector banks**  
(as of 2Q16; CSe)

**Assets x Equity of public-sector banks**  
(as of 2Q16)



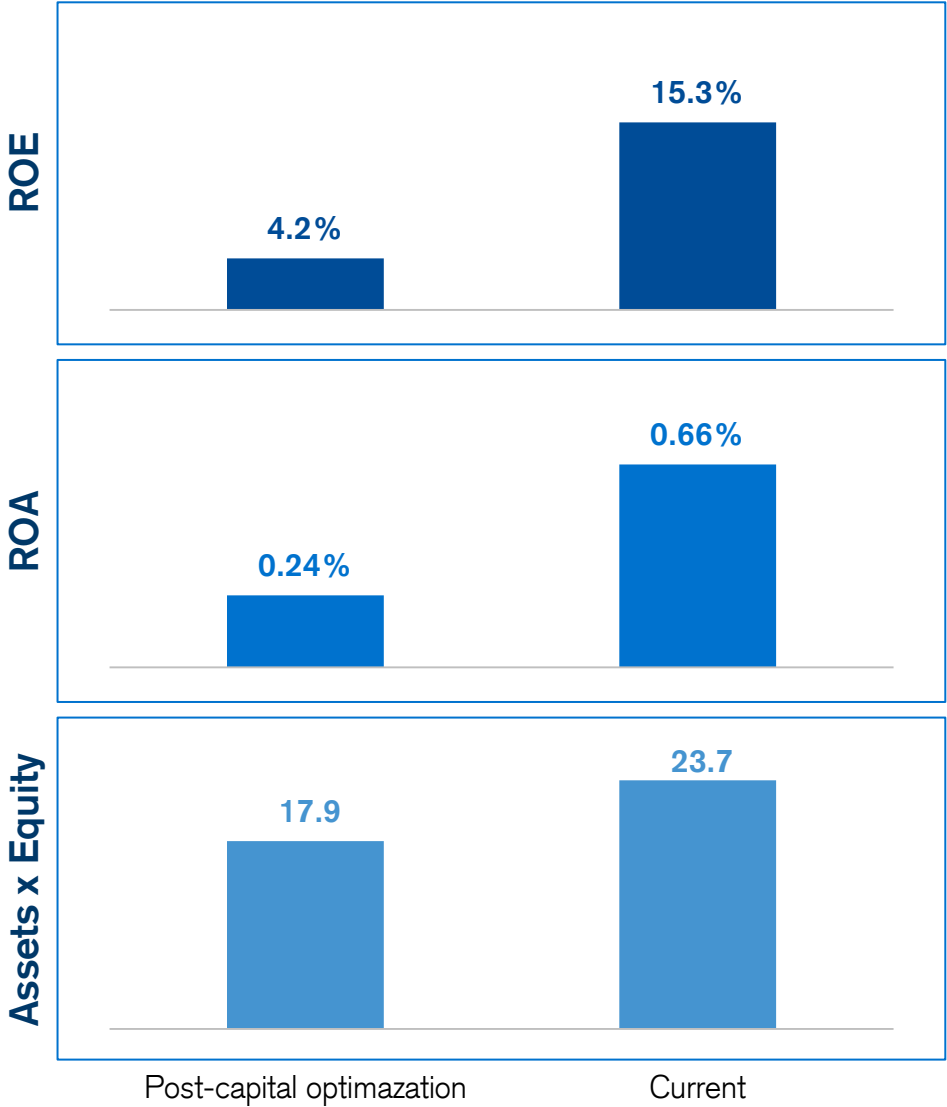
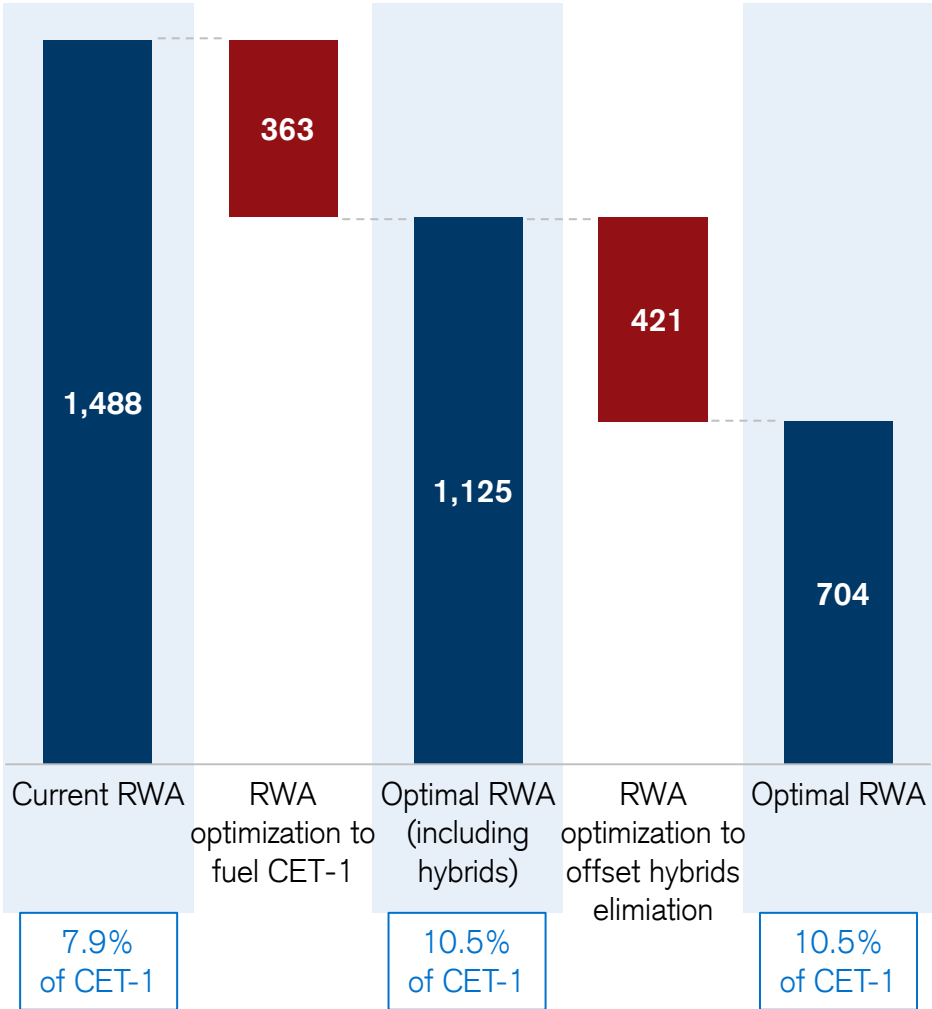
# Estimated potential capital optimization of public banks

Capital optimization of public banks  
(R\$ billion)



# RWA optimization of public banks

RWA optimization of public banks  
(R\$ billion)



# Companies Mentioned

Price as of 28-Jul-2016

- **Banco do Brasil** (BBAS3.SA, R\$20.67, UNDERPERFORM[V], TP R\$18.0)
- **Bradesco** (BBDC4.SA, R\$27.5, OUTPERFORM, TP R\$33.0)
- **Itau Unibanco** (ITUB4.SA, R\$33.18, NEUTRAL, TP R\$35.0)

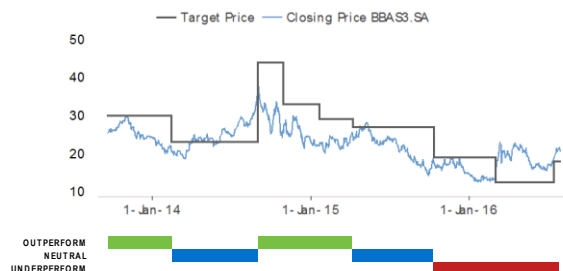
# Important Global Disclosures

Marcelo Telles, CFA, Lucas Lopes, Alonso Garcia and Victor Schabbel each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

## 3-Year Price and Rating History for Banco do Brasil (BBAS3.SA)

BBAS3.SA	Closing Price	Target Price	
Date	(R\$)	(R\$)	Rating
20-Sep-13	25.50	30.00	O
14-Feb-14	20.47	23.00	N
01-Sep-14	35.43	44.00	O
29-Oct-14	25.46	33.00	
21-Jan-15	22.66	29.00	
08-Apr-15	24.35	27.00	N
12-Oct-15	18.51	19.00	U
02-Mar-16	14.77	12.50	
14-Jul-16	19.01	18.00	

\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for Banco do Brasil (BBAS3.SA)

BBDC4.SA	Closing Price	Target Price	
Date	(R\$)	(R\$)	Rating
20-Sep-13	23.06	25.63	N
23-Mar-14	21.29	25.63	O
29-Oct-14	25.44	30.90	
21-Jan-15	26.60	32.41	
08-Apr-15	28.32	31.65	N
12-Oct-15	21.70	23.51	U
17-Dec-15	18.58	23.64	
18-Feb-16	18.00	20.00	
14-Jul-16	28.30	33.00	O

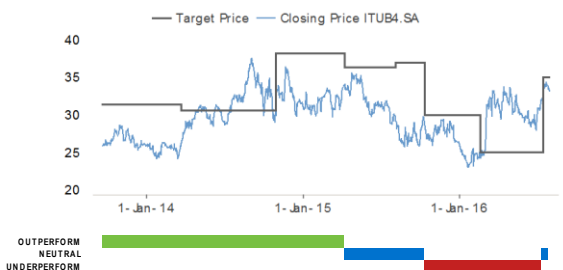
\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for Itau Unibanco (ITUB4.SA)

ITUB4.SA	Closing Price	Target Price	
Date	(R\$)	(R\$)	Rating
20-Sep-13	25.94	31.40	O
23-Mar-14	25.92	30.58	
29-Oct-14	29.93	38.18	
08-Apr-15	34.09	36.36	N
04-Aug-15	29.20	37.00	
12-Oct-15	29.55	30.00	U
18-Feb-16	24.64	25.00	
14-Jul-16	33.57	35.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

### As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

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Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	53%	(45% banking clients)
Neutral/Hold*	32%	(13% banking clients)
Underperform/Sell*	14%	(36% banking clients)
Restricted	1%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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## Target Price and Rating

### Valuation Methodology and Risks: (12 months) for Banco do Brasil (BBAS3.SA)

**Method:** We derived our R\$18.0/share target price and Underperform rating after running an economic profit methodology. Our estimated cost of equity is 17.3% and our long-term sustainable growth factor is 7.9%.

**Risk:** Risks to our R\$18.0/share target price and Underperform rating for Banco do Brasil include severe economic slowdown, increase in delinquency, further consolidation in the private banking system and regulatory changes that could affect Banco do Brasil's profitability and quality of assets.

## Target Price and Rating

### Valuation Methodology and Risks: (12 months) for Bradesco (BBDC4.SA)

**Method:** We derived our R\$33/share target price and Outperform rating after running an economic profit methodology. Our estimated cost of equity is 16.3% and our long-term sustainable growth factor is 7.9%.

**Risk:** Risks to our R\$33 target price and our Outperform rating for Bradesco include slower-than-expected economic recovery, longer-than-expected asset quality deterioration and increase in large corporate delinquency.

## Target Price and Rating

### Valuation Methodology and Risks: (12 months) for Itau Unibanco (ITUB4.SA)

**Method:** We derived our R\$35/share target price and our Neutral rating after running an economic profit model, with explicit forecast up to 2019, implicit between 2020 and 2022 and perpetuity. Our estimated cost of equity is 15.9% and our long-term sustainable growth factor is 7.9%.

**Risk:** Risks to our R\$35 target price and to our Neutral rating for Itau include severe economic slowdown, losses related to the insurance company, loss of market share due to further consolidation in the system or loss of efficiency.

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