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## Banco Bradesco S.A.

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# Banco Bradesco S.A.

<b>SACP</b>	<b>bbb</b>	+	<b>Support</b>	<b>0</b>	+	<b>Additional Factors</b>	<b>-1</b>
<b>Anchor</b>	<b>bbb-</b>		<b>GRE Support</b>	<b>0</b>		<b>Issuer Credit Rating</b>  <b>BBB-/Negative/A-3</b>	
<b>Business Position</b>	<b>Very Strong +2</b>		<b>Group Support</b>	<b>0</b>			
<b>Capital and Earnings</b>	<b>Moderate -1</b>		<b>Sovereign Support</b>	<b>0</b>			
<b>Risk Position</b>	<b>Adequate 0</b>						
<b>Funding</b>	<b>Average 0</b>						
<b>Liquidity</b>	<b>Adequate 0</b>						

## Major Rating Factors

<b>Strengths:</b>	<b>Weaknesses:</b>
<ul style="list-style-type: none"> <li>• Very strong and diversified franchise in Brazil with a market-leading banking franchise, diversified and resilient earnings, and good track record amid slow economic expansion in Brazil; and</li> <li>• Low-cost, diversified, and stable funding base that supports the business during market distress.</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate capitalization; however, slower portfolio growth relieves pressure on risk-adjusted capital (RAC)</li> <li>• Challenging competitive environment as public banks boost their participation in the system; and</li> <li>• High concentration in Brazil, with limited international diversification.</li> </ul>

## Outlook: Negative

The negative outlook on Banco Bradesco S.A. reflects that on the sovereign, given the bank's significant exposure to the government debt. We rarely rate banks above the sovereign long-term rating because, during sovereign stress, the sovereign's regulatory and supervisory powers may restrict a bank or financial system's flexibility. In addition, banks frequently are affected by many of the same economic factors that cause a sovereign stress. Therefore, the ratings on Bradesco will likely move in tandem with the sovereign rating.

Given Bradesco's "moderately high" likelihood of government support due to its high systemic importance, the bank won't be downgraded as long as it maintains its SACP at 'bb+' or above. Therefore, it's currently unlikely to downgrade the bank without a similar action on the sovereign because we don't expect its rating factors to weaken to the point where we revise the SACP below 'bb+'.

## Rationale

Our ratings on Bradesco reflect its 'bbb-' anchor and our view of the bank's "very strong" business position, "moderate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity.

### Anchor:'bbb-' for a bank operating only in Brazil

Under our bank criteria, we use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Brazil is 'bbb-', based on the country's economic risk score of '6' and an industry risk score of '5'. Brazil's economic risk reflects its low GDP per capita levels and only modest growth prospects that limit household debt capacity and the country's ability to withstand economic downturns. Although still significant, the economic imbalances risk has somewhat decreased in 2014 as credit and house price growth has moderated while banks' asset quality has gradually improved and nonperforming loans (NPLs) and credit losses have stabilized at manageable levels. On the other hand, the country is facing challenging political and economic conditions. Brazil's economic growth prospects have weakened in 2014 while fiscal debt burden remains high. We believe likely economic contraction will take its toll on banks, which in our view will move into a correction phase in the next 12-18 months. Such scenario would prompt a reversal in the recent improvement in asset quality and profitability. Therefore, we assess our economic risk trend as negative. While large and most mid-size banks are well prepared to weather weak economic prospects, we believe some medium and smaller banks will face significant credit losses.

Our industry risk assessment for Brazil reflects the significant presence of government-owned banks, which has caused material distortions in the market over the past few years, weakening competitive dynamics. On the other hand, the country's regulatory structure has an extensive coverage and is broadly in line with international standards. Brazilian banks benefit from a stable core customer deposit base and fluid access to local and international capital markets. Banks' external funding constitutes only 7.3% of their total liabilities.

**Table 1**

<b>Banco Bradesco S.A. Key Figures</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. R\$)</b>	<b>2015*</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Adjusted assets	843,484.6	859,739.1	755,590.0	732,597.3	642,814.9
Customer loans (gross)	355,024.2	346,643.6	323,061.2	290,960.3	268,667.9
Adjusted common equity	77,542.3	71,429.4	61,920.4	57,899.2	51,093.1
Operating revenues	43,636.1	79,997.6	68,933.1	67,838.3	65,783.1
Noninterest expenses	24,067.1	45,021.7	42,015.4	41,333.5	39,255.0
Core earnings	9,289.4	16,347.4	13,253.6	12,389.5	12,042.9

\*Data as of June 30.

R\$--BRL-Brazilian real.

### Business position: Strong pricing power and capacity to generate fee revenues

We continue to assess Bradesco's overall business position as "very strong" due to its large market presence, wide range of loans and services, and solid franchise, especially within the retail and insurance segments where its strong

pricing power is evident. With total assets of R\$1.03 trillion (\$332 billion) as of June 30, 2015, Bradesco is the second-largest private bank in Latin America and controls the country's largest insurer, Bradesco Seguros. Bradesco provides banking and insurance services to almost 34% of Brazil's total population of about 200 million, underscoring its exceptional market penetration. The bank's revenues are stable despite Brazil's sluggish economy, given Bradesco's diversified business activities, increasing fee revenues, and ongoing efficiency gains. Bradesco is primarily a domestic bank, with no major operations outside Brazil. However, the bank has a nationwide footprint, while its management has many years of experience and proven track record. The bank's successful and conservative management has also delivered profitability stability even during difficult economic periods in the country.

Table 2

Banco Bradesco S.A. Business Position					
		--Year-ended Dec. 31--			
(%)	2015*	2014	2013	2012	2011
Loan market share in country of domicile	N/A	10.2	10.8	11.3	12.0
Deposit market share in country of domicile	N/A	10.8	11.6	12.0	12.8
Total revenues from business line (currency in millions)	43,510.7	81,703.8	70,568.7	70,469.9	66,676.9
Return on equity	20.7	19.8	17.0	18.1	21.3

\*Data as of June 30.

N/A--Not applicable.

### Capital and earnings: Moderate capital levels and stable profitability

Bradesco's "moderate" capital and earnings is based on our forecasted risk-adjusted capital ratio (RAC) of 6.3% for the next two years, weakened by the large equity of the bank's insurance subsidiary. Our forecast assumes a loan growth of 5% in 2015, an increase in net interest margin given the country's high interest rates, greater loan loss provisions due to the overall asset quality deterioration in Brazil's banking sector, and a dividend payout ratio, which should be in line with those of the last few years. Despite Brazil's recession in 2015, we believe Bradesco's strong profitability will support current capitalization levels as fee revenues continue to rise above inflation, which provides a solid buffer against the bank's credit risks.

Table 3

Banco Bradesco S.A. Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	2015*	2014	2013	2012	2011
Tier 1 capital ratio	12.8	12.9	12.3	11.0	12.4
S&P RAC ratio before diversification	N.M.	5.5	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	N.M.	6.3	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	62.2	58.9	53.1	67.2	59.8
Fee income/operating revenues	27.1	27.2	28.2	25.2	22.5
Noninterest expenses/operating revenues	55.2	56.3	61.0	60.9	59.7
Provision operating income/average assets	3.8	3.6	3.0	3.2	3.8
Core earnings/average managed assets	1.8	1.7	1.5	1.5	1.7

\*Data as of June 30.

Table 3

**Banco Bradesco S.A. Capital And Earnings (cont.)**

N.M.--Not meaningful.

**Risk position: Asset quality pressure across the industry**

We view Bradesco's risk position as "adequate" based on the bank's conservative growth, relatively simple business model for an institution of its size, its national scope, and the loan portfolio's wide industry diversification. The bank's assets have grown at a slower pace than the domestic financial system's in the past few years. NPLs ticked upwards to 4.2% in June 2015 from 4.0% in March 2014, pointing to potentially higher credit losses. We expect NPLs to remain slightly above 4.2% during 2015 mainly due to the Brazil's sharp economic slowdown. However, weaker asset quality shouldn't jeopardize Bradesco's overall profitability, given the bank's conservative growth and the lending focus on payroll, corporates, and real estate loans, which tend to be more resilient than vehicles and small- to mid-size loans and overall consumption credit. Furthermore, the bank's diversification and low single-name concentration help it maintain its adequate asset quality indicators.

Table 4

**Banco Bradesco S.A. Risk Position**

	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Growth in customer loans	4.8	7.3	11.0	8.3	16.5
Total diversification adjustment / S&P RWA before diversification	N.M.	(12.7)	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)	13.3	14.4	14.7	15.2	14.9
New loan loss provisions/average customer loans	4.5	4.3	4.4	5.0	4.8
Net charge-offs/average customer loans	3.1	2.7	3.2	3.3	2.4
Gross nonperforming assets/customer loans + other real estate owned	4.3	4.1	4.0	4.6	4.4
Loan loss reserves/gross nonperforming assets	156.7	161.2	168.3	158.9	163.5

\*Data as of June 30.

N.M.--Not meaningful.

**Funding and liquidity: Competitive and diversified funding**

Bradesco has "average" funding and "adequate" liquidity, which are in line with those of the bank's regional peers, in our view. The bank's extensive retail network results in a stable deposit base, and its widely known brand and resilience make it a safe harbor in times of stress. The bank's stable funding ratio has remained at 91.1% as of June 2015, while broad liquid assets to short-term funding was 1.1x.

The long-term issuer credit rating on Bradesco is one notch lower than its stand-alone credit profile (SACP), and is at the same level as the long-term foreign currency rating on Brazil. Under our criteria, it's unlikely that we'd assign an issuer credit rating on a bank above that on the sovereign because the bank would have to demonstrate a capacity to maintain sufficient capital and liquidity to cover the significant stress that accompanies a sovereign default. Additionally, Bradesco has significant asset exposure to the sovereign because the bank's liquid assets are largely invested in sovereign bonds.

Table 5

Banco Bradesco S.A. Funding And Liquidity					
(% )	--Year-ended Dec. 31--				
	2015*	2014	2013	2012	2011
Core deposits/funding base	41.2	40.2	42.1	41.5	46.5
Customer loans (net)/customer deposits	117.4	112.8	114.5	108.5	99.6
Long term funding ratio	58.2	57.6	60.0	60.2	66.3
Stable funding ratio	91.1	95.8	95.8	102.4	110.7
Short-term wholesale funding/funding base	46.8	46.9	44.1	44.1	36.8
Broad liquid assets/short-term wholesale funding (x)	1.1	1.2	1.2	1.3	1.5
Net broad liquid assets/short-term customer deposits	10.6	24.3	26.1	44.6	64.9
Short-term wholesale funding/total wholesale funding	79.5	78.5	76.2	75.4	68.9

\*Data as of June 30.

## Related Criteria And Research

### Related Criteria

- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Standard & Poor's National and Regional Scale Mapping Tables, Sept. 30, 2014.
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Group Rating Methodology, Nov. 19, 2013
- General: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of August 11, 2015)

#### Banco Bradesco S.A.

Counterparty Credit Rating

BBB-/Negative/A-3

**Ratings Detail (As Of August 11, 2015) (cont.)**

<i>Brazil National Scale</i>	brAAA/Negative/brA-1+
Senior Unsecured	BBB-

**Counterparty Credit Ratings History**

28-Jul-2015	<i>Foreign Currency</i>	BBB-/Negative/A-3
26-Mar-2014		BBB-/Stable/A-3
07-Jun-2013		BBB/Negative/A-2
11-Jul-2012		BBB/Stable/A-2
28-Jul-2015	<i>Local Currency</i>	BBB-/Negative/A-3
26-Mar-2014		BBB-/Stable/A-3
07-Jun-2013		BBB/Negative/A-2
11-Jul-2012		BBB/Stable/A-2
28-Jul-2015	<i>Brazil National Scale</i>	brAAA/Negative/brA-1+
29-Sep-2014		brAAA/Stable/brA-1+
16-May-2007		brAAA/Stable/brA-1

**Sovereign Rating**

Brazil (Federative Republic of)	
<i>Foreign Currency</i>	BBB-/Negative/A-3
<i>Local Currency</i>	BBB+/Negative/A-2
<i>Brazil National Scale</i>	brAAA/Stable/--

**Related Entities****Banco Bradesco Argentina S.A.**

Issuer Credit Rating	
<i>Argentina National Scale</i>	raB+/Negative/raB

**Bradesco Capitalizacao S.A.**

Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Negative/--

**Bradesco Seguros S.A.**

Financial Strength Rating	
<i>Brazil National Scale</i>	brAAA/Negative/--
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Negative/--

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