

Financial Institutions - Brazil

Loans to individuals improving

The Central Bank published data on credit relating to September showing increases of 1.5% MoM and 16.9% YoY, a flat in relation to the August growth rate. Once again public banks showed the stronger growth rate increasing portfolio by 1.9% MoM, while private banks' loan portfolio increased by 1.5% MoM (an improvement to the 1.3% growth last month) and foreign banks showed a mere of 0.6% MoM expansion (also improving over August's 0.3% growth). Delinquency ratios, continued flat MoM at 4.4% of total loan portfolio with provisions down by 10 bps to 7.2% of total portfolio, from the adjusted 7.3% in the previous month. In September, delinquency ratios coming from individuals continued decreasing to 8.2% from 8.4% in August while the ones coming from corporate moved up to 4.0% from 3.9%. Private Banks decreased provisions, to 8.5% from 8.6% in August, while public banks decreased provisions from 6.1% to 5.9%. The trend continues positive with individual delinquency ratios improving, but still causes some concern as delinquency ratios at corporate continued showing a small rise. The problem is that it is still unclear if corporate can renegotiate debts or if delinquencies will lead to shut downs and consequent layoffs, which would once again result in an increase in default levels coming from loans given to individuals.

Breakdown

Loans to individuals increased 1.4% MoM and 17.1% YoY. Corporate loans showed a 1.2% increase MoM, with loans using domestic resources increasing by 2.8% MoM and those with external resources reducing by 8.0% MoM.

Amongst earmarked loans, the largest increase this month was in farming loans to coops (+11.1% MoM) followed by BNDES pass through (+3.8% MoM) and with BNDES direct loans dropping by 0.6%.

Loans for vehicle purchases increased 1.9% MoM, improvement to August's 1.3% growth. Leasing increased by 0.5% MoM in August, while direct financing was up 1.3% MoM.

Total credit increased its participation in GDP to 45.7% in September, from 45.2% in July, with GDP up by 0.65% MoM.

According to Central Bank data, the average spread charged by banks in September continued moving down, to 26.0% from 26.3% in August and is now lower than one year ago when it reached 26.4%. Loans to individuals had the largest decrease in spreads, down to 33.4% in August from 34.3% in August, while spreads on corporate loans were down another 10 bps to 17.7%, from 17.8% in August.

Default

Default levels were flat at end of September at 4.4%, still much higher than the 2.8% of the previous year. Public banks saw a decrease in default levels to 2.6% of loan portfolio reducing provisions flat to 5.9%. Private Banks decreased provisions for the first time in the last 12 months to 8.5% from 8.6% in August, even though default levels increased to 5.7%.

D-H classified loans decreased to 9.4% of total from 9.6% in August.

Conclusion

We believe that the larger banks are the bigger winners this month. This is because we saw most of the growth in vehicle financing and mortgages. Although some small banks operate in the vehicle segment, they do not operate in the mortgage market. However, in addition to not expect continued growth in vehicle financing, we believe that the share price of most banks capture the growths of September. Thus, our top pick remains Itau-Unibanco that will still show synergy gains.

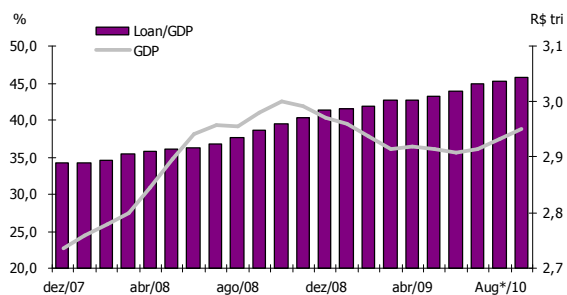
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Local Market	Ticker	Rating	Target Price YE10	Closing Price (10/27)	Potential Return (%)
Banco do Brasil	BBAS3	Sell	24.00	29.10	-17.5
Bradesco	BBDC4	Neutral	36.00	35.59	1.1
Bradesco	BBD	Neutral	19.00	20.72	-8.3
Itaú-Unibanco	ITUB4	Buy	42.50	35.36	20.2
Itaú-Unibanco	ITUB	Buy	22.50	20.50	9.8

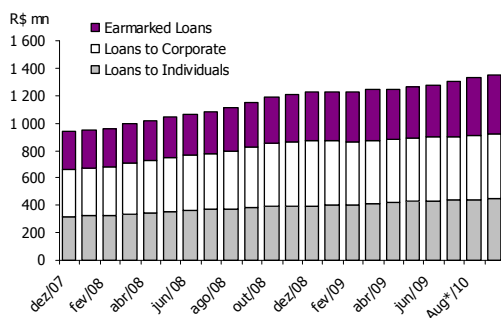
Source: Banif Securities Research estimates and closing prices from Bloomberg.

Loan Portfolio / GDP



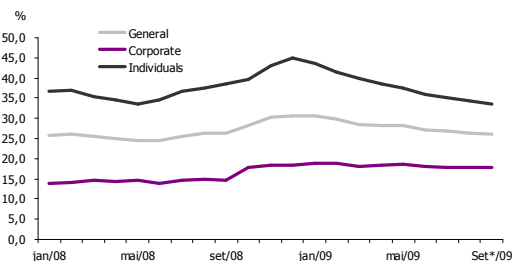
Source: Banif-Ixe Research and Central Bank

Total Loan Portfolio



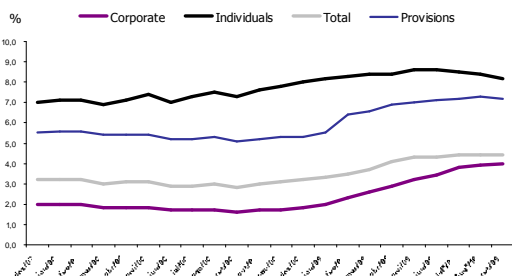
Source: Banif-Ixe Research and Central Bank

Spreads



Source: Banif-Ixe Research and Central Bank

Default Levels



Source: Banif-Ixe Research and Central Bank

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Rating	Coverage	Banking Relationship Last 12 Months
BUY	51.0%	2.0%
NEUTRAL	21.0%	0%
SELL	28.0%	0%

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