MOODY'S INVESTORS SERVICE

CREDIT OPINION

17 June 2016

Update

Rate this Research

RATINGS

Banco Bradesco S.A.

Domicile	Osasco, Sao Paulo, Brazil
Long Term Rating	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Ceres Lisboa 55-11-3043-7317
Senior Vice President
ceres.lisboa@moodys.com

Alcir Freitas 55-11-3043-7308
Senior Credit Officer
alcir.freitas@moodys.com

Thiago Scarelli 55-11-3043-7347
Associate Analyst
thiago.scarelli@moodys.com

Aaron Freedman 52-55-1253-5713
Associate Managing Director
aaron.freedman@moodys.com

Banco Bradesco S.A.

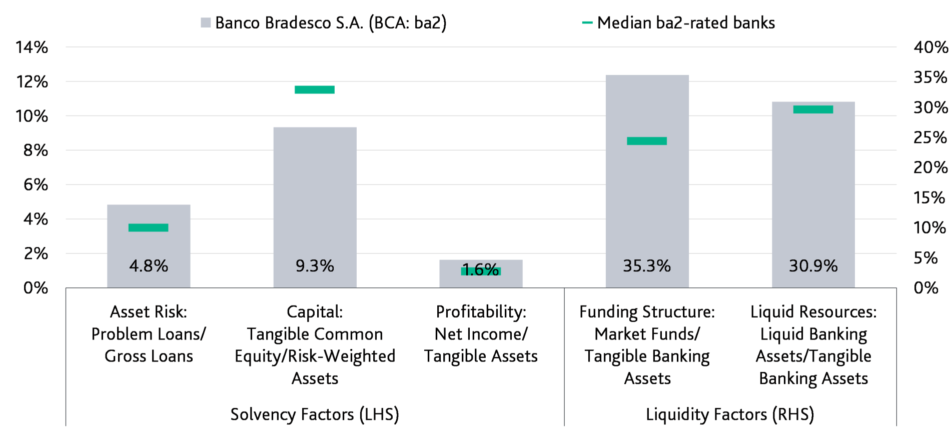
Post Rating Action Update

Summary Rating Rationale

On June 14th, 2016, we affirmed Banco Bradesco S.A.'s (Bradesco) baseline credit assessment at ba2, as well as the bank's global local and foreign currency deposit ratings of Ba2/Not Prime and Ba3/Not Prime, long and short-term respectively, and the bank's foreign currency senior unsecured debt rating assigned to the GMTN program of (P)Ba2. All ratings were affirmed, including the long and short-term national scale deposit ratings of Aa1.br and BR-1, reflecting final regulators' approval received by Bradesco to complete the acquisition of HSBC's operations in Brazil, HSBC Bank Brasil - Banco Multiplo S.A. (HSBC Brazil), on June 8th 2016.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics.

Moody's assigns a baseline credit assessment (BCA)of ba2 to Bradesco that reflects the bank's strong economic and financial linkages between the bank and the creditworthiness of the sovereign. Bradesco's ratings is constrained by the sovereign bond rating of Ba2, and has its outlook aligned to the negative outlook on the sovereign rating.

We acknowledge the bank's steady recurring earnings generation, combined with disciplined risk management, supports its strong capital replenishment ability. The bank's sound liquidity position is characterized by its large market shares in core deposits in Brazil and well established access to domestic and international capital markets. However, based on Moody's adjusted tangible common equity ratio, Bradesco has a low adjusted tangible common equity ratio of 9.3% in March 2016 (8.6% in 2015), as we exclude goodwill and

DTAs, a stricter metric designed to provide global consistency, and which, we estimate, will be affected by a reduction between 2.5% and 2.8% as the bank absorb the assets and liabilities of the acquisition of HSBC's operations.

We note that Bradesco's high degree of revenues diversification and dominant market shares in non-banking business ensures its earnings stability through the cycles, and allows the bank to maintain conservative reserve buffers shielding capital position. On a regulatory basis, Bradesco reported common equity tier 1 of 12.9% in March 2016 (12.5% fully loaded BIS III).

In Moody's view, Bradesco would be highly eligible of government support in a situation of stress, reflecting its strong market presence and significant participation in the system's total deposits and loans. However, at this point, the bank's Ba2 global local currency deposit rating (GLC) remains at the same level of its unsupported credit assessment (BCA) of ba2, not benefiting from systemic support uplift, since it is already at the same level of the sovereign bond rating of Ba2.

BRADESCO'S RATING IS SUPPORTED BY THE MODERATE MACRO PROFILE ON BRAZIL

Brazil's Moderate macro profile reflects the country's large and diversified economy, while the combination of ongoing economic recession, persistently high inflation and difficult political scenario increases challenges to Brazilian banks' operating environment. The pace of growth has reduced significantly in the last year and the tightening monetary policy allowed banks to raise lending rates, which relieved part of the earnings pressure arising from asset risks. Public banks hold a 56% share of Brazil's loan market, which is reflected in the adjustment for industry structure. Capital and funding remain adequate, and exposure to international capital markets will remain low. External vulnerability is also limited by Brazil's sizeable international reserves, which reduce the country's sensitivity to external shocks, such as sudden stops in capital flows.

Credit Strengths

» Solid earnings generation with high revenue diversification including an important share coming from non-credit revenues provided by its leading franchise in the health and life insurance, as well as pension funds.

» Well managed asset risk with conservative reserve buffers and diversified loan portfolio that has showed improved delinquency ratio over the past three years as the bank moved towards lower-risk lending segments.

» Sound liquidity and funding access with large and stable portion of core deposits provided by its massive client base and nationwide outreach.

» High probability of government support in case of stress, but deposit and debt ratings do not benefit from such incorporation of support at this point.

Credit Challenges

» Low capital ratio by Moody's adjusted standards compared to global average, but steady replenishment resulting from its strong earnings fundamentals

» Ratings capped by Brazil's sovereign bond rating of Ba2.

Rating Outlook

All ratings have negative outlook in line with the negative outlook on Brazil's bond rating.

Factors that Could Lead to an Upgrade

» As Bradesco’s deposit and debt ratings are currently constrained by Brazil’s sovereign bond rating of Ba2, the bank’s ratings have a negative outlook in line with the negative outlook on the sovereign rating.

» Given the negative outlook and Brazil's deep ongoing economic recession, upward pressure is unlikely in the near to medium term. However, the outlook could stabilize if and when the government outlook stabilizes.

Factors that Could Lead to a Downgrade

» With ratings constrained by Brazil's bond rating, Bradesco's ratings will face downward pressure if the sovereign is downgraded.

» Bradesco's BCA could be lowered if the bank experiences a material deterioration in recurring earnings generation triggered by unexpected losses, or by a prolonged recession. Failure to achieve expected cost and earnings synergies that limits the bank's ability to restore its capital levels over the next 12 to 18 months would also put downward pressure on the BCA. However, a downgrade of the bank's BCA would not be likely to affect its debt and deposit ratings given the high probability of government financial support should the bank face financial stress.

Key Indicators

Exhibit 2

Banco Bradesco S.A. (Consolidated Financials) [1]

	3-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[3]	Avg.
Total Assets (BRL billion)	1024.0	1018.9	739.1	908.1	879.1	3.9[4]
Total Assets (USD billion)	288.9	257.5	278.0	384.9	429.3	-9.4[4]
Tangible Common Equity (BRL billion)	62.1	56.5	-	47.1	35.2	15.3[4]
Tangible Common Equity (USD billion)	17.5	14.3	-	20.0	17.2	0.5[4]
Problem Loans / Gross Loans (%)	4.8	4.7	4.1	4.0	4.6	4.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	9.3	8.0	-	7.6	5.5	8.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.4	19.9	-	18.7	23.7	20.2[5]
Net Interest Margin (%)	10.0	-	-	4.7	6.2	7.0[5]
PPI / Average RWA (%)	9.2	4.3	5.3	4.5	4.7	5.8[6]
Net Income / Tangible Assets (%)	1.6	1.7	2.1	1.3	1.3	1.6[5]
Cost / Income Ratio (%)	45.2	54.7	49.0	53.1	52.0	50.8[5]
Market Funds / Tangible Banking Assets (%)	33.0	35.3	-	32.6	48.4	37.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	30.9	30.9	-	38.5	55.6	39.0[5]
Gross loans / Due to customers (%)	161.0	164.2	149.6	142.0	137.6	150.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] Basel II; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & LOCAL GAAP reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

FURTHER DETERIORATION IN ASSET RISKS IS EXPECTED: HIGH RESERVE BUFFERS AND SELECTIVE POLICIES SETTING THE TONE FOR COMING QUARTERS

Bradesco's overall risk management follows conservative policies that ensure resilient asset quality indicators through credit cycles. We assess asset risk as ba1, with no adjustment made to the equivalent score to 4.8% problem loans ratio in 1Q16 (4.22% reported), according to Moody's calculation, given the negative trend for asset risk at this moment. However, we acknowledge the high diversification of Bradesco's loan portfolio, with low concentration risk by single sector or single borrower, and high reserve buffers, which helps to shield the bank's capital position from any unexpected asset deterioration.

Problem loans over 90 days have been increasing gradually since the end of 2014, reaching 4.22% of total loans in the 1Q16, with pressures primarily coming from SME portfolio that reported an increment of 196 bps in problem loan ratio in 12 months, while delinquencies in large corporates and consumer loan book improved in the quarter. A way to manage risks through shifts in portfolio mix, Bradesco was able to reduce exposure to SMEs to 22.3% of total loans, contracting by 10% this business, and maintaining its focus on lower-risk classes such as mortgage and payroll, in the consumer segment, that accounted for 40.1% of total loans to individuals in

1Q16. Overall, Bradesco's household credit portfolio increased by 4%, while corporate credit contracted 1.8% in 12 months, attesting the bank's conservative credit policy at this point.

On the other hand, while the bank has a granular loan book, the main single sector concentration are related to civil construction companies, that accounted for 6.4% of loans and around 30% of common equity in March 2016, and oil and gas segment, including petrochemical, representing 3.3% of loans and 15.5% of common equity. Under the current negative risk scenario and continued deterioration ahead indicated by early delinquencies, Bradesco continued to reinforce reserve buffers with provisions covering for 2 times the amount of 90-day non-performing loans, and accounting for 8.6% total loans in March 2016.

STRONG CAPITAL REPLENISHMENT CAPACITY MITIGATES NEGATIVES PRESSURES IN THE MEDIUM TERM

Following the completion of the acquisition of HSBC, we lowered Bradesco's capital score to b3 reflecting our view that its capitalization will decline by about to 2.5% and 2.8% on Moody's TCE measure, as HSBC Brazil's operations are absorbed. Immediately after the absorption of high amount of goodwill recorded with the acquisition which is excluded from equity, and the addition of HSBC's RWA, we estimated that our TCE ratio will drop close to 6.5%, corresponding to a score of caa1. However, we consider a positive adjustment of one notch to the capital score, acknowledging that bank's long-track record of strong earnings recurrence and capital retention, and our estimates that capitalization will be restored in six to eight quarters, even as we expect a continuation of declining profitability over the next 12 months and stabilization in 2017 and 2018. Our estimates reflect low loan growth and a challenging credit risk scenario that will continue to pressure loan loss provisions. But, over the next 12 to 18 months, we also expect the bank to be able to achieve the implementation of capital buffers and continue to phase-in adjustments related to Basel III. At the same time, pressures on capital will lessen with a contraction of the loan book in 2016 and slow growth in 2017.

The difference from the reported core capital ratio of 12.9% in 1Q16, well above the minimum required standards, and our measure is due to the adjustment of common equity to DTA arising from temporary differences related to loan loss provisions , as our analytical approach considers that DTAs may not have the ability to absorb losses during the resolution of a bank. The ratio is also adjusted to consider the exclusion of goodwill and adjusts risk weighted assets to the weight of its holdings of government securities by the sovereign rating (Ba2=100%). According tot the bank, the fully-loaded Tier 1 ratio is 12.5%, which considers 1.5% of additional Tier 1 capital that could be issued until 2018 by the bank.

DOMINANT MARKET SHARE IN INSURANCE ACTIVITIES ENHANCES BUSINESS DIVERSIFICATION AND EARNINGS QUALITY, HELPS COMPENSATING CREDIT COSTS

We score Bradesco's profitability at a3, reflecting strong earnings recurrence driven by a diversified and steady earnings generation capacity, which is supported by non-interest income activities, where the bank has high market participation. Compared with other banks in the system, Bradesco's sizeable insurance operation, which accounted for one third of bottom line results, has historically been a market leader in the life and pension plan industries, as well as in the health care segment, with approximately 25% market share by premium.

Diversification and focus on cross selling helped Bradesco to manage net interest margin pressure stemming from fierce competition over recent years. Primarily domestic, Bradesco's profitability will remain pressured by its cautious credit strategy and moderate expansion. The weak macroeconomic scenario for 2016/2017 should also present limitations for credit demand and for further improvement in credit risk, while costs of credit measured by provisioning expenses is again the main pressure to bottom line results. In March 2016, provisions increased 52.2% over the same period in 2014, an increase that included provisions for oil and gas companies.

The anticipated acquisition of HSBC Brasil should generate both cost synergies and revenue growth by providing Bradesco access to its high-net-worth clients, fee-based services and insurance business opportunities. Regulatory approval, which the companies originally expected by the end of 2015, is now expected in early March, although the regulators have until June and could take more time if necessary.

STEADY FUNDING AND LIQUIDITY PROFILE, BUT HIGH LEVEL OF GOVERNMENT SECURITIES EXPOSURE INCREASES RISK CORRELATION

The bank's proprietary exposure to government securities (excluding exposure owned by the insurance and pension fund) have increased over the past quarters, as loan origination moderates, and accounted for 6.9% of assets and 91.7% of CET1 equity as of March 2016, which defines the bank's high correlation with sovereign creditworthiness. Although this is a source of immediate liquidity, it is also an important source of risk transmission of sovereign stress in times of downturns.

We score funding structure at baa3, to reflect Bradesco's ample diversification of funding sources with a steady and broad base of customer resources (62.7% of total funding), including demand deposits (5.6%), savings (17.9%), and time deposit, including debentures repos and deposit-like instruments covered by local FDIC (39.3%). Resources with wholesale features are local currency banknotes (letras financeiras) that accounted for 22.5%, including subordinated notes, domestic onlending resources from development institutions (largely BNDES with 7.2%, including FINAME), foreign currency senior and subordinated notes (4.3%) and other external resources such as trade finance facilities and senior notes. The diversification of the funding structure, solid deposit base and continuous access to international markets have mitigated the impact of swings in domestic interest rates over time and ensured adequate cost and duration of its funding sources.

Notching Considerations

In the absence of a bail-in resolution regime framework in Brazil, the ratings of subordinated debts, bank hybrids, and contingent capital securities follow the "Additional Notching Guidelines", as per the Rating Methodology: Banks. In these cases, the approach takes into account other features specific to debt classes, resulting in additional notching from the adjusted baseline credit assessment (BCA) of the issuer.

Government Support

We believe there is a high likelihood of government support for Banco Bradesco's rated wholesale deposits and senior unsecured debt. This reflects Bradesco's large market share of deposits in Brazil and hence the material systemic consequences that would result from an unsupported failure. Nevertheless, Bradesco's deposit rating does not benefit from government support uplift, at this instance, given that the bank's standalone baseline credit assessment is at the same level of the government's bond rating.

Counterparty Risk Assessment

Moody's has assigned a Counterparty Risk Assessment (CR Assessment) to Banco Bradesco at Ba1(cr) for long-term and Not Prime(cr) for short-term. This CR Assessment is one notch above the banks adjusted BCA of ba2 and reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations. The CR Assessment is not a rating. The CR Assessment also reflects the anticipated seniority of these obligations in the liabilities hierarchy. The CR Assessment also incorporates other steps authorities can take to preserve the key operations of a bank should it enter a resolution.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

The financial data in the attached scorecard are sourced from Bradesco's consolidated financial statements at end-March 2016.

Rating Methodology and Scorecard Factors

Exhibit 3

Banco Bradesco S.A.						
Macro Factors						
Weighted Macro Profile	**Moderate**	**100%**				
Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.8%	ba1	↓	ba1	Quality of assets	Collateral and provisioning coverage
Capital						
TCE / RWA	9.3%	ba3	↓↓	b3	Capital retention	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	1.6%	baa1	←→	a3	Earnings quality	
Combined Solvency Score		ba1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	35.3%	b1	↑↑	baa3	Deposit quality	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	30.9%	baa2	←→	baa2	Quality of liquid assets	
Combined Liquidity Score		ba2		baa3		
Financial Profile				ba1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Ba2		
Scorecard Calculated BCA range				ba1-ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1 (cr)	--
Deposits	0	0	ba2	0	Ba2	Ba3
Senior unsecured bank debt	0	0	ba2	0	--	Ba2

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO BRADESCO S.A.	
Outlook	Negative
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba2/NP
NSR Bank Deposits	Aa1.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)

Senior Unsecured MTN	(P)Ba2
BANCO BRADESCO S.A., GRAND CAYMAN BRANCH	
Outlook	Negative
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Senior Unsecured	Ba2
Subordinate	Ba3

Source: Moody's Investors Service

REPORT NUMBER 1031282

MOODY'S
INVESTORS SERVICE