

LatAm Financials Insights

Does FinTech matter for Brazilian banks?

Equities

Latin America
Financial

UBS Evidence Lab survey suggests FinTech risk to Bz banks is real and rising

According to our Q-series report "[Global banks: Is FinTech a threat or an opportunity?](#)" based on a survey with 27,914 customers in 24 countries the use of financial services from non-traditional providers is set to rise sharply although collaboration with FinTech companies and new technology also provide opportunities for banks. In Brazil, disintermediation risk is real and growing, with usage of non-bank financial services such as peer-to-peer lending, mobile/internet payments, money transfers and robo-advisory expected to surge by 88-100% over the next year, according to surveyed bank customers.

Is there capital deployment upside potential for Brazilian banks?

Brazilian banks are in a comfortable capital position, with tier I expected to reach 13.8% by the end of 2016, above EM (13.0%) and Global (13.3%) averages. In our view, Itau with a high core tier I, strong capital generation and the highest level of excess provision is best placed to return capital to investors. On the other hand, BB, with the lowest core tier I among the banks we cover, is least likely to do so (in fact, in February 2016, BB cut its payout ratio from 40% to 25%).

Brazil public banks: fundamentals still under pressure?

The latest 2Q16 results show sector fundamentals for public sector banks (including Caixa and Banrisul) remain under pressure: despite improving margins, there are no signs of the slowdown in credit demand abating with asset quality trends mixed in the quarter. Overall, earnings momentum has been negative for Brazilian banks, however, the latest 2Q16 results suggest that we may be past the worst in terms of provisions (see here – "[Brazil asset quality: are we now past the worst?](#)").

Weekly Performance (US\$ terms, closing prices as of Thursday, September 8th)

Best performer was Davivienda up +9.0% and the worst was Banco Macro down -1.5%.

Figure 1: LatAm Financials coverage summary

	Rating	Price LC	Price Target LC	Upside (%)	Div.Yield 12M Fwd (%)	Mkt Cap (USD millions)	P/E 2016E	P/E 2017E	1-week USD	1-week	1-month	YTD	1-year
Banco do Brasil	Sell (CBE)	24.13	17.00	-29.5	3.6	21,491	8.5x	6.6x	6.9	5.6	14.7	66.7	54.2
Bradesco	Neutral	30.40	30.20	-0.7	4.9	52,475	10.0x	9.2x	7.1	5.7	5.3	74.2	56.6
Itau Unibanco	Buy	36.64	39.50	7.8	3.9	69,286	10.8x	9.8x	2.5	1.2	5.9	43.4	45.7
Itaúsa	Buy	8.70	9.80	12.6	n.a.	20,093	n.a.	n.a.	1.7	0.5	2.6	43.6	41.2
Santander	Sell	23.03	17.50	-24.0	6.2	27,069	15.2x	13.2x	2.8	1.5	10.2	51.0	75.7
Banorte	Buy	106.68	117.80	10.4	1.4	15,838	15.3x	13.1x	2.5	1.7	2.7	12.9	41.7
Banregio	Buy	113.95	125.00	9.7	1.8	2,000	16.9x	15.4x	2.1	1.3	5.8	30.3	25.0
Genera	Neutral	35.24	38.00	7.8	0.0	3,109	14.6x	13.1x	0.0	-0.8	-2.3	8.1	31.5
Inbursa	Buy	32.50	43.10	32.6	2.0	11,599	16.2x	13.6x	1.0	0.2	5.4	5.9	-4.8
Santander Mexico	Neutral	35.63	35.60	-0.1	2.9	12,926	15.4x	14.2x	-0.2	-0.9	3.5	19.9	44.2
Unifin	Buy	56.31	63.00	11.9	1.5	1,063	16.4x	13.7x	4.1	3.3	8.2	n.a.	n.a.
Bancolombia	Sell	42.07	32.60	-22.5	2.8	10,116	12.0x	11.5x	7.0	7.0	19.0	58.7	28.0
Credicorp	Buy	161.22	170.80	5.9	4.5	12,859	13.1x	11.2x	0.3	0.3	0.6	68.4	51.8
Davivienda	Buy	30040.00	34000.00	13.2	4.2	4,690	8.1x	7.5x	9.0	3.6	10.0	40.1	18.0
Santander Chile	Neutral	21.34	21.20	-0.7	4.5	10,054	13.3x	12.3x	0.8	0.8	-0.8	27.8	18.9
Galicia	Neutral	30.18	40.00	32.5	11.5	192	0.7x	0.6x	-0.6	-0.6	1.8	11.9	47.9
Frances	Sell	20.45	22.00	7.6	1.7	3,660	11.8x	12.1x	1.5	1.5	1.8	8.0	20.7
Macro	Neutral	77.27	100.00	29.4	0.3	4,517	10.9x	11.3x	-1.5	-1.5	6.0	33.5	63.8
BM&F Bovespa	Sell	17.74	16.50	-7.0	2.3	10,476	15.8x	14.8x	3.5	2.2	-4.7	63.9	72.4
Bolsa	Neutral	34.50	31.00	-10.1	3.4	1,095	21.3x	19.9x	-1.1	-1.9	-2.4	56.7	36.1
Cetip	Sell	43.68	40.00	-8.4	3.7	3,485	18.3x	17.3x	1.6	0.3	1.2	18.6	45.8
Cielo	Neutral	32.91	39.00	18.5	1.6	23,138	18.7x	16.6x	0.9	-0.3	-6.5	18.6	10.2
BB Seguridade	Neutral	31.11	34.00	9.3	5.5	19,339	14.9x	13.7x	5.0	3.7	6.7	32.3	29.9
Porto Seguro	Neutral	29.80	30.50	2.3	3.4	2,994	10.1x	9.7x	7.8	6.4	8.4	4.0	-2.5
Sul America	Sell	16.37	17.50	6.9	3.3	1,734	8.5x	7.8x	2.0	0.7	-10.4	-10.8	-6.0

Source: UBS and Bloomberg. Note: price as of September 8th.

Inbursa, Banorte, Credicorp, Itau

BB, SanB, Bovespa, Cetip, Bancolombia, Sula and Banco Frances

PIVOTAL QUESTIONS

Q: Does FinTech matter for Brazilian banks?

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Q: Brazil public banks: fundamentals still under pressure?

We are Neutral on Brazilian banks with Banco do Brasil (Sell rating) being our least preferred name. The latest 2Q16 results show sector fundamentals for public sector banks (including Caixa and Banrisul) remain under pressure: despite improving margins, there are no signs of the slowdown in credit demand abating with asset quality trends mixed in the quarter. Overall, earnings momentum has been negative for Brazilian banks, however, the latest 2Q16 results suggest that we may be past the worst in terms of provisions (see here – "[Brazil asset quality: are we now past the worst?](#)"). [more →](#)

WHAT'S PRICED IN?

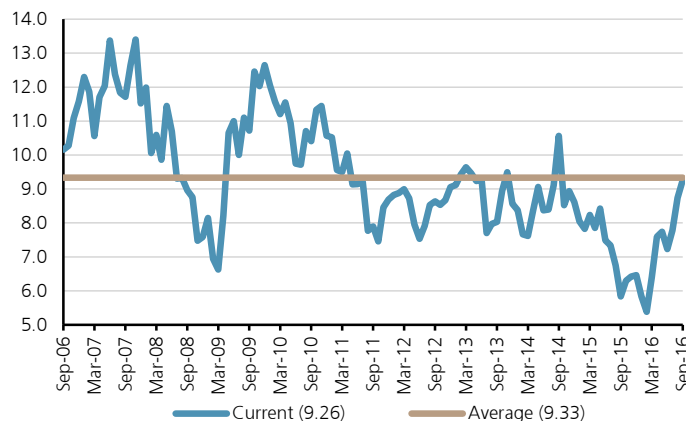
Current valuations suggest the market is expecting c1% fall in earnings. The market remains sceptical about the Brazilian banks sector's earnings outlook for 2016: based on 1-year forward PE multiples, consensus is expecting a c1% fall in earnings to get back to long-run average valuations.

UBS VIEW

The outlook for Brazilian banks remains challenging with growth uncertainties and rising unemployment. Asset quality remains the key concern. Brazilian banks have also set aside additional provisions, resulting in elevated NPL buffers and coverage ratios that may help absorb a higher provisioning burden. Until we see evidence of NPL/provisions peaking and macro uncertainties starting to recede, we maintain our neutral stance on the sector.

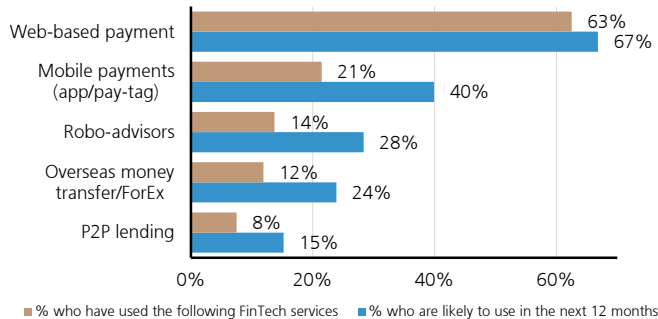
EVIDENCE

Brazilian banks – 1-year forward consensus PE

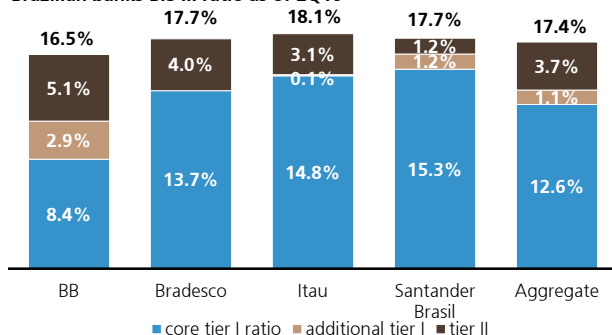


Source: I/B/E/S MSCI consensus data, Thomson Financials DataStream

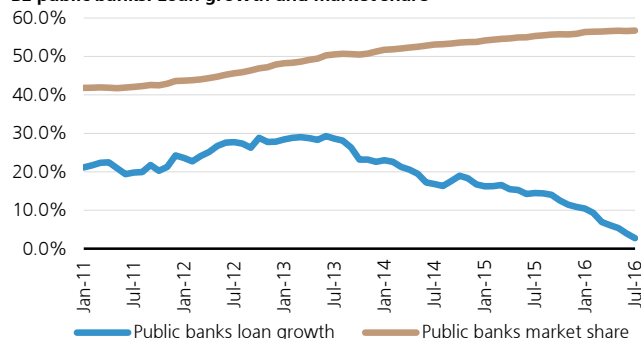
OUR THESIS IN PICTURES

[return](#) ↑**% of customers who have used and are likely to use Fintech in the next 12m in Brazil**

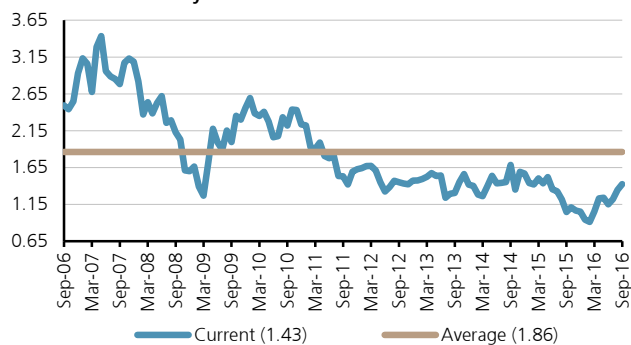
In Brazil, disintermediation risk is set to rise with adoption of financial services by non-bank providers set to surge by 88-100% over the next 12 months

Brazilian banks BIS III ratio as of 2Q16

Brazilian banks have comfortable capital position - in 2Q16, the four banks under coverage had a core Tier 1 (B3) ratio of 12.6%, well above the minimum local requirement of 5.125% for 2016 and 7.250% for 2017

Bz public banks: Loan growth and market share

Public banks have been growing their loan book at an average of c18.0%p.a. in the past five years, reaching a 56.7% market share in July 2016

Bz banks consensus 1-year forward PBV

Bz banks are trading at 1.43x 1-year forward consensus PBV, 23.0% below its average of 1.86x

Sources for exhibits above: UBS Evidence Lab, UBS estimates, Bloomberg, I/B/E/S MSCI consensus data, Thomson Financials DataStream, Company data and BCB

Q: Does FinTech matter for Brazilian banks?

UBS VIEW

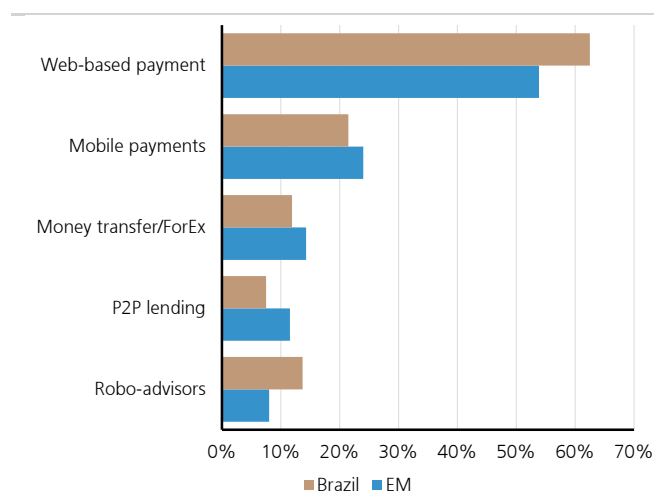
According to our Q-series report "[Global banks: Is FinTech a threat or an opportunity?](#)" based on a survey with 27,914 customers in 24 countries the use of financial services from non-traditional providers is set to rise sharply although collaboration with FinTech companies and new technology also provide opportunities for banks. In Brazil, disintermediation risk is real and growing, with usage of non-bank financial services such as peer-to-peer lending, mobile/internet payments, money transfers and robo-advisory expected to surge by 88-100% over the next year, according to surveyed bank customers

EVIDENCE

According to our UBS Evidence Lab survey of 1,160 customers of more than 8 banks in Brazil, the use of financial services from non-traditional providers is set to rise sharply. In applications ranging from mobile payments to overseas money transfers, from P2P lending to robo-advisers, our survey indicates that adoption is set to surge by 88-100% over the next 12 months.

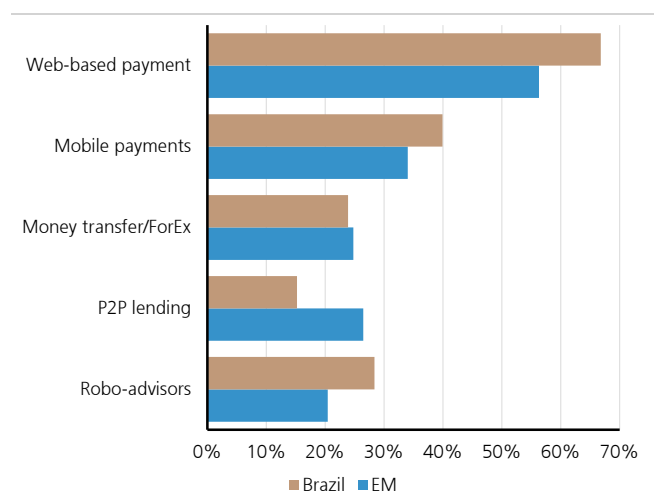
- **Mobile payments:** 21% of Brazilian bank customers surveyed indicated that they had used a mobile payments service offered by a non-traditional banking organisation in the last 12 months, a level that is expected to rise to 40% within a year;
- **Peer-to-peer (P2) lending:** According to our survey, 8% of respondents in Brazil indicated that they had applied for a P2P loan. This is expected to surge to 15% within a year.
- **Money transfers:** Users of money transfers (including FX services) by a FinTech provider are forecast to rise 100% over the next 12 months, with 12% of respondents expecting to use this service, up from 24% currently.
- **Robo-advisors:** the number of respondents saying they had used robo-advisors in the last six months was 14%. Albeit from a lower base, the use of robo-advisors looks likely to grow exponentially, with the survey suggesting growth of 100% over the next year

Figure 2: % of customers that have used these FinTech services in Brazil vs. EM



Source: UBS Evidence Lab

Figure 3: % that have used and are likely to use the following FinTech services in the next 12 months in Brazil



Source: UBS Evidence Lab. For P2P lending, if current P2P users are incorporated, as many as 33% of respondents are likely to use this service

Via a second UBS Evidence Lab survey, we also examined different dimensions of FinTech from the perspectives of bank management. According to this survey, Brazilian bank managements surveyed considered the major threat from FinTech to come from the payment businesses, as highlighted by 67% of respondents. Disintermediation risk from FinTech from P2P lending and money transfers were considered to be of a lower threat.

One way that banks have responded to threats from FinTech competitors has been via partnerships. According to our management survey, 33% of respondents currently have a FinTech partnership, a level that is expected to rise to 67% over the next 12 months. Brazilian banks' managements also had high expectations on the impact of FinTech on revenues with those surveyed estimating a 4.3% uplift to revenues (net of cost benefit/release) over the next three years. However, compared to their developed markets peers, they have been slow to embrace new technology with no respondent indicating that they have fully implemented a blockchain system or are with a partial system in production, however, 33% were at the "testing/pilot stage."

WHAT'S PRICED IN

In our Q-Series FinTech banking publication ([click here](#)), we devised a FinTech banking scorecard based on the findings of consumer surveys in order to disintermediation risk for banks from non-bank providers. Using the same methodology, our FinTech banking scorecard shows that banks in Korea, Poland and Singapore came out on top, reflecting low risk of bank customers switching to non-bank providers for financial services, with Brazil ranked 9th out of 14 countries, suggesting disintermediation risk for banks are reasonably high.

Figure 4: Emerging markets: FinTech banking scorecard rankings

	Money Transfers	Mobile Payments	P2P Lending	Web Payments	Robo- Advisors	Final Rank Score
<i>Weighting</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>100%</i>
South Korea	1	3	2	1	3	10
Poland	2	1	1	7	4	15
Singapore	3	2	3	6	1	15
South Africa	5	5	7	4	2	23
Russia	4	4	5	12	5	30
Turkey	7	9	8	3	8	35
Nigeria	13	7	10	2	6	38
Kenya	10	6	14	5	7	42
China	6	8	6	14	9	43
Brazil	8	11	4	10	12	45
Indonesia	11	10	13	8	10	52
Mexico	9	12	12	9	11	53
Thailand	12	14	11	11	13	61
India	14	13	9	13	14	63

Source: UBS research analysis (based on UBS Evidence Lab survey findings). A low percentage score is better

Q: Is there capital deployment upside potential for Brazilian banks?

UBS VIEW

Brazilian banks are in a comfortable capital position, with tier I expected to reach 13.8% by the end of 2016, above EM and Global averages (13.0% and 13.3% respectively).

They also appear to be well positioned for the full adoption of Basel 3 capital rules, which have been gradually phased in since 2013, with full adoption by January 1st, 2019.

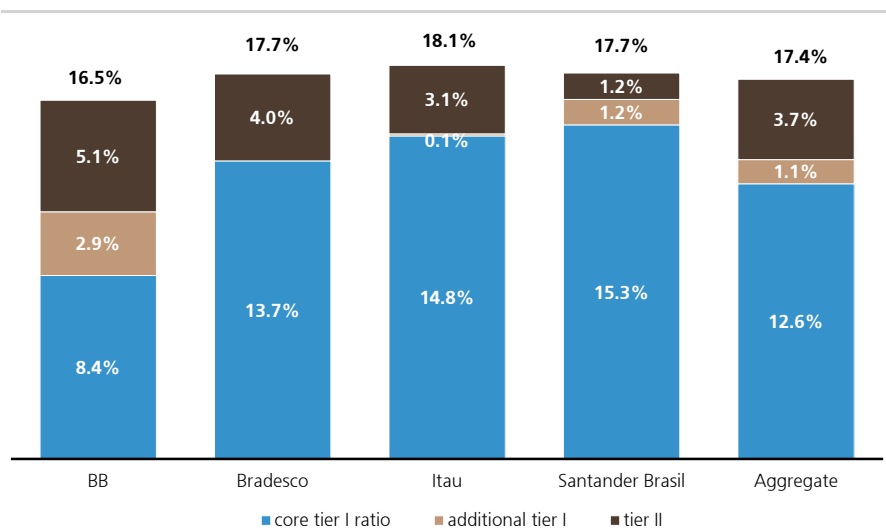
In our view, Itau with a high core tier I (14.8% as of 2Q16; and 14.1% with BIS III rules fully loaded), strong capital generation (185bps 2017e) and the highest level of excess provision (R\$10.2bn, which could be reversed) is best placed to return capital to investors.

On the other hand, BB, with the lowest core tier I among the banks we cover at 8.4% as of 2Q16 and 8.5% fully loaded, below the minimum required of 10.5% by 2019 (considering countercyclical buffer is activated), is least likely to do so (in fact, in February 2016, BB cut its payout ratio from 40% to 25%).

EVIDENCE

In 2Q16, the four banks under coverage had a core Tier 1 (B3) ratio of 12.6%, well above the minimum local requirement of 5.125% for 2016 and 7.250% for 2017.

Figure 5: Brazilian banks BIS III ratio as of June 2016



Source: Banks and UBS

By 2019 with the full implementation of Basel III when the minimum requirement is 10.50%, we think banks should be reasonably well positioned.

Figure 6: BIS III implementation schedule in Brazil

	2016	2017	2018	2019
Common Equity Tier I (CET1)	4.500	4.500	4.500	4.500
Tier I	6.000	6.000	6.000	6.000
BIS ratio	9.875	9.250	8.625	8.000
Capital Conservation Buffer	0.625	1.250	1.875	2.500
Additional CET1 Countercyclical Buffer (superior limit)	0.625*	1.250	1.875	2.500
Additional CET1 Systemic (D-SIB) Buffer	0.000	0.250	0.500	1.000
CET1 + Buffers	5.125	7.250	8.750	10.500
Tier I + Buffers	6.625	8.750	10.250	12.000
BIS ratio + Buffers	10.500	12.000	12.875	14.000

Source: Central Bank and Banco do Brasil. * the Additional CET1 Countercyclical Buffer was not activated by the Central Bank in 2016, according to Central Bank Circular 3,769/15

As of 2Q16, Santander Brasil has the highest phased in tier I at 15.3%, followed by Itau at 14.8%, while BB has the lowest at 8.4%

According to capital simulations published by banks, the fully loaded Basel III requirements (deductions on capital and RWA rules) would have a 100-160bps negative impact on core tier I ratio. The consumption of tax credits could, however, minimize this impact, which could then range from -70bps to +10bps.

Itau would be the most impacted (-70bps) by the full implementation of BIS III rules, however, it is still expected to have the highest core tier I at 14.1%. On the other hand, with the use of DTAs, BB would actually have a positive impact (+10bps) with full implementation; nevertheless, it is still expected to have the lowest core tier I at 8.6%. Bradesco, even with the negative impact of 230bps from HSBC would still have a comfortable core tier I at 11.3% (-240bps from current level), according to data disclosed by the bank.

Figure 7: Simulation of the impact of the full adoption of Basel III rules on 2Q16 Core Tier I

	Core Tier I as of 2Q16	(-) Deductions Schedule Anticipation	Core Tier I with full deductions	(-) early adoption RWA rules	Core Tier I with fully loaded BIS III	Use of Tax Credits	Simulated Core Tier I with fully loaded BIS III rules	Impact of HSBC Acquisition	Simulated Core Tier I with fully loaded BIS III rules
BB	8.4%	-0.9%	7.6%	-0.1%	7.4%	1.1%	8.6%		8.6%
Bradesco	13.7%	-1.3%	12.4%	-0.2%	12.2%	1.4%	13.6%	-2.3%	11.3%
Itau	14.8%	-1.3%	13.5%	-0.3%	13.2%	0.9%	14.1%		14.1%
Santander Brasil	15.3%	n.a.	n.a.	n.a.	13.8%	n.a.	n.a.		n.a.

Source: Banks and UBS. Note: For BB, estimated by UBS based on management published simulation for Tier I. Santander Brasil does not provide a simulation.

Assuming a 25%-90% dividend payout, Brazilian banks should be able to generate -78bps to +111bp of capital in 2017 based on our net income estimates.

Figure 8: Estimated capital generation in 2017

2017e	BB	Bradesco	Itau	Santander Brasil
Reported Net Income	10,361	18,068	23,124	5,436
(-) dividends	(2,590)	(6,324)	(8,093)	(4,892)
Retained Capital	7,771	11,744	15,031	544
Tier I (2016e YE)	91,765	83,069	118,628	55,813
Tier I ratio (2016e YE)	11.2%	13.6%	15.2%	15.8%
Tier I (2017e YE)	99,536	94,813	133,659	56,356
Tier I ratio (2017e YE)	11.4%	14.6%	16.3%	15.1%
Internal capital generation	17 bps	102 bps	111 bps	-78 bps

Source: UBS estimates

Santander Brasil, with the highest core tier I, is the only bank with potential negative capital generation, on the back of 90% dividend payout (the bank is expect to maintain this level next year and thereafter). On the other hand, BB, with the lowest core tier I, and low internal capital generation, announced in February 2016 a reduction in dividend payout from 40% to 25%, reflecting its relative low capital position.

Figure 9: Brazilian banks payout ratio (as % of reported net income)

	2015	2016	2017
BB	40%	25%	25%
Bradesco	35%	35%	35%
Itau	35%	35%	35%
Santander Brasil	89%	90%	90%

Source: Banks and UBS estimates

Banks have also been launching buyback programs. Bradesco announced on June 24, 2016 a buyback program to acquire up to 0.27% of total shares, Santander on November 03, 2015 to acquire up to 1.0% of total units and Itau on February 2, 2016 to acquire up to 1.0% of total shares. Last year, Itau bought back ~1.9% of its total shares, Bradesco and BB ~0.1% and Santander ~0.4% of total units. Banco do Brasil does not have any outstanding share buyback program at this moment. Looking ahead, we believe Itau is best placed to increase its share buyback programme given its current balance sheet strength and strong internal capital generation potential.

Q: Brazil public banks: fundamentals still under pressure?

UBS VIEW

We are Neutral on Brazilian banks with Banco do Brasil (Sell rating) being our least preferred name. The latest 2Q16 results show sector fundamentals for public sector banks (including Caixa and Banrisul) remain under pressure: despite improving margins, there are no signs of the slowdown in credit demand abating with asset quality trends mixed in the quarter. Overall, earnings momentum has been negative for Brazilian banks, however, the latest 2Q16 results suggest that we may be past the worst in terms of provisions (see here – "[Brazil asset quality: are we now past the worst?](#)").

EVIDENCE

Top-down trends

On August 25th we published our monthly Brazilian credit tracker that focused on the July 2016 data from the Central Bank ([full report](#)). We highlighted two main trends on public banks in Brazil:

- Loan growth decelerated to 2.8%yoy from 4.0%yoy in June 16 and 14.5%yoy in July 15;
- NPLs deteriorated 10 bps mom and 40bps yoy, to 2.8%.

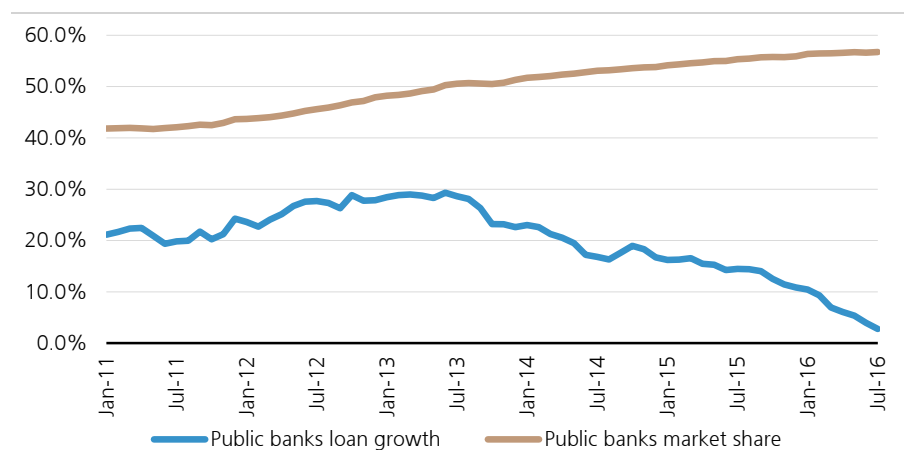
Private banks' loan growth also accelerated to 2.1%yoy vs. -3.6%yoy in June 16 (impacted by the acquisition of HSBC Brasil by Bradesco, concluded in July) while NPL deteriorated 10bps mom and 80bps yoy, to 5.0%.

Public banks have been growing their loan book at an average of c18.0%p.a. (vs. 5.0%p.a. for private players) in the past five years, reaching a 56.7% market share in July 16. Since Feb 14, public banks have been slowing their growth pace, with the growth rate decreasing from 23.0%yoy in Jan 14 to 2.8%yoy in July 16.

Bottom-up trends

Alongside Banco do Brasil 2Q16 reported numbers ([full report](#)), we look at the 2Q trends of two other public banks: Caixa and Banrisul to ascertain the key trends among banks in the public sector.

Figure 10: Loan growth portfolio rate and market share for state banks in Brazil



Source: UBS and BCB

At the company level, all three public banks showed a deceleration in loan growth in 2Q16. Banco do Brasil loan growth was +0.3%yoy in 2Q16 from +2.9%yoy in 1Q16; Banrisul's contracted -4.2%yoy from +1.1%yoy while Caixa's was +6.7%yoy from +9.2%yoy.

We expect loan growth to remain subdued during 2016, based on companies guidance and reflecting the still weak macro scenario. 2Q16 results already showed a deceleration for both private and public banks.

Figure 11: Brazilian banks loan growth

	Loan Growth			
	2015	2016 Guidance	2016 UBS expect.	2Q16 yoy
Bradesco	5.9%	-4.0% to 0.0%	-3.5%	-3.7%
Itau Unibanco	4.9%	-10.5% to -5.5%	-8.1%	-5.9%
Banco do Brasil	7.3%	-2.0% to 1.0%	0.0%	0.3%
Santander	6.3%	NA	-2.0%	-4.0%
CEF	11.9%	5.5% to 7.5%	NA	6.7%
Banrisul	5.0%	-4.0% to 0.0%	NA	-4.2%

Source: Company data and UBS estimates

In terms of asset quality, we observed a meaningful deterioration in loan portfolio during the quarter for BB with NPL90 days reaching 3.3%, up +67bps qoq (+42bps explained by a specific case in oil & gas sector). On the other hand, for Banrisul, NPL was slightly down 7bps qoq, to 4.81% and for Caixa NPL improved by 31bps qoq, reaching 3.20%. On the back of macro uncertainties and higher unemployment, asset quality deterioration remains a concern, especially for individuals and SME segments.

Additionally, the three public banks have lowered their guidance for loan growth in 2016. Banco do Brasil revised its guidance for loan growth to -2% to 1% (from 3-6% at the start of the year), influenced by the performance of the companies loan portfolio. Banrisul now expects loan growth at -4 to 0% (from 0-4%), while Caixa has changed its guidance to 5.5-7.5% (from 7-10%).

In terms of margins, overall trend was positive. NIM increased for Banco do Brasil, up 10bps qoq to 6.5% (credit spreads up 20bps qoq) and for Caixa, up 61bps to 4.0%. For Banrisul, NIM was slightly down by 12bps qoq, to 8.78%.

Central bank data also shows that both public and private banks have been increasing lending rates / adjusting up spreads ([see here](#)).

We expect price behaviour to remain rational during 2016, with spreads still at high level. However, the easing cycle expected to start in October 2016, could lead to lower lending rates and margin pressure.

Key takeaways from public banks' results

- **Banco do Brasil (Sell, PT R\$16.0):** Another earnings miss on rising delinquency risk. Banco do Brasil recurring net income was R\$1,801mn, 11.9% below our estimates (R\$2,045mn), 5.9% below consensus (R\$1,914mn), resulting in ROE of 8.9% (vs. 6.5% in 1Q16 and 15.2% in 2Q15). In 2Q16, BB reversed all of its excess provisions (R\$1.2bn). The main reasons for the miss were higher provisions and other operating expenses. Other negatives: high NPL/NPL creation, increased level of renegotiated loans, no NPL buffer and lower than expected loan growth. The positives: higher NIM and credit spreads, fees, cost control and slightly higher core tier I. The main concern for Banco do Brasil remains on asset quality, in our view. With no NPL buffer, BB is vulnerable for further asset quality deterioration.

Changes in 2016 Guidance: 1) NII growth to 11-15% (from 7-11%); 2) Loan growth of -2 to 1% (from 3-6%), driven by a decrease in corporate loans (-10 to -6% from 1 to 4%). Other guidance remained unchanged: 3) LLP/loans of 4.0-4.4%; 4) ROE of 9-12%; 5) Fee income growth at 7%-11% and 6) opex growth of 5-8%.

- **Caixa** reported 2Q16 net income of R\$1.6bn (+92.1%qoq but down 16.8%yoy), resulting in ROE of 9.76% (vs 10.27% in 1Q16 and 12.49% in 2Q15). Loan growth was up 1.1%qoq and 6.7%yoy (vs 9.2%yoy in 1Q16). NPL (90 days) was down 31bps qoq, to 3.20% (up 45bps yoy), driven by corporates and mortgages. Cost of risk was 3.6%, increasing 140bps qoq and 80bs yoy. Loan Loss provision were R\$6.3bn, sharply up 64.3%qoq and 37.4%yoy. NII was up 1.5%qoq and 4.9%yoy. Fees were up 5.4%qoq and 10.6%yoy. Insurance revenues were R\$485mn in 1H16. Personnel expenses were up 7.7%yoy, mainly due to the union agreement in 2015. CEF reported a ROAA of 0.52%. Tier I was down to 8.8% (vs 9.6% in 1Q16 and 10.4% in 2Q15).

On the **call with the press**, management revised expectations for loan growth to 5.5-7.5% (from 7.0-10.0%) and for fee income to be 9.0-11.0%. Caixa maintained expectations of: 1) BIS ratio (13.0-15.0%) and 2) asset growth (3.0-5.0%).

- **Banrisul** reported recurring net income of R\$201.5mn (+7.2qoq and +4.5%yoy), resulting in a ROAE of 13.2% (vs 12.6 in 1Q16 and 14% in 2Q15). Total assets increased 6.4%yoy while equity increased 10.2%yoy. Loan portfolio contracted -4.2%yoy and -5.0%qoq. BIS ratio at 16.8% (vs 18.3% in 1Q16 and 17.7% in 2Q15). LLP decreased 27.4%qoq but was up 1.0%yoy. NPL ratio (90 days) slightly decreased to 4.81%, from 4.88% in 1Q16. Coverage ratio (90 days) increased to 161.3%, from

156.1% in 1Q16. Income from services and fees increased 6.3%qoq and 21.5%yoy. NIM fell to 8.78% (from 8.9% in 1Q16 and 7.88% in 2Q15).

New 2016 Guidance: Loan portfolio was revised to -4-0% (from 0-4%), ROE of 11-15% (from 14-17%) and LLR as % of Loans to 7.5-8.5% (from 6.5-7.5%). Within the loan portfolio, individuals revised to 4-8% (from 0-4%), corporates to -19% to -15% (from 0-4%) and real estate loans to 1-5% (from 4-8%). Other guidance remained unchanged: cost of risk (3.5-4.5%), efficiency ratio (49-53%), NIM (7.5-8.5%) and funding (10-14%).

WHAT'S PRICED IN

Based on conversations with investors, the market is expecting NPLs to peak in 4Q16-1Q17. In our view, a good time to buy the sector will likely be related to when the market thinks loan loss provisions have peaked, paving the way for higher earnings and rising ROE. We have a Sell rating on BB and SANB, a Neutral on Bradesco and Itau is our only Buy rated bank in Brazil.

Key highlights of last week

Brazil

- **Mobile banking in Brazil – UBS Evidence Lab:** Cross-selling and efficiency gains ahead? Mobile banking is experiencing exponential growth and looks set to become the leading distribution channel for banking transactions in Brazil. According to our latest UBS Evidence Lab survey, retail transactions via mobile banking in Brazil have surged from 5% to 20% over the past two years; by 2019, surveyed bank management expected this to rise to 52%, considerably above in-branch transactions – which are forecast to fall from 31% today to as low as 12% – and among the highest in emerging markets (45%). In Brazil, Itau (Buy) is our preferred name on this theme, reflecting an effectively executed mobile banking strategy, considerable IT investments, and in-house capability, and the highest mobile banking penetration (79%). Our bank-by-bank analysis also showed Bradesco (Neutral) as ranking first in terms of best mobile experience, Banco do Brasil (Sell) as having attractive cross-selling opportunities, while Santander Brasil (Sell) has delivered the biggest improvement in mobile penetration. ([Full report](#))
- **BM&F Bovespa (Sell, PT R\$16.5):** Comparing BVMF with global exchanges: is there more upside? Investor debate on BVMF revolves around two main themes: 1) what is the potential upside on EPS from rising equities volumes, and 2) should BVMF3 close the gap versus EM peers. To answer those questions, we analyze Brazilian capital markets, BVMF's Ebitda and cash flows trends in a global perspective. We find that earnings power should accelerate in the coming years, but see small upside to our already optimistic volume estimates (R\$10bn by 2018 in equities). We revised our PT to R\$16.5 (from R\$15.0) on higher volumes and lower cost of equity (13% vs 15% before on lower macro risk), and reiterate our Sell rating (see [Downgrade to Sell: Risk/reward unattractive](#)). ([Full report](#))

August Operating data: weaker derivatives and slower equities. (i) Equities: ADTV was R\$7.3bn, +7.6%mom; QTD down 1.0% vs 2Q16 (ii) Derivatives: ADV was 2.5mn contracts, down -5.7%mom; QTD down -11.8% vs. 2Q16, driven mostly by a decrease in Interest rates in BRL (-22.5% mom and -26.0% qoq). RPC increased 4.5%mom; QTD -11.5% vs. 2Q16. We have a Sell on BVMF.

- According to CPFL's (Utilities Company) notice to the market, Banco do Brasil intends to transfer 196.3mn of CPFL's shares to Previ (BB's employees' pension fund).
- Bradesco has announced that its Board has approved the proposal for the absorption of the net equity portions of HSBC, through a partial spin-off. The equity portions to be merged are as follows: Bradesco (R\$12.7mn), Bradesco Leasing (R\$22.3mn) and Bradesco Cards (R\$17.9mn). The bank will also propose to its board to increase the age limit for the position of CEO from less than 65 to less than 67 years old on the date of election.
- According to Central Bank, Brazilian saving accounts had net withdrawals of R\$4.5bn in August. This was higher than in July (R\$1.1bn) but lower than in August 2015 (R\$7.5bn).

- Cade (Anti-trust regulator) has recommended the approval of the creation of GIC (credit bureau) by Bradesco, Banco do Brasil, Caixa, Santander and Itau. However the approval shall depend on a market concentration control agreement.
- The government's proposal to create a low-cost health insurance is getting more support from industry players. Representatives of healthcare companies Amil, Hapvida, São Francisco, Sampa and Clinipam believe that price reduction is the only way to make health insurance affordable to the population and, therefore, resume growth in the sector.
- According to Anfavea (National Federation of Vehicle Makers), auto sales decreased 6.4%mom and 11.3%yoy in August.

Mexico

- **Santander Mexico (Neutral, PT Ps 35.6):** Downgrade to Neutral on valuations. We downgraded SanMex to a Neutral (from Buy) on the back of solid share price performance. Since the start of the year, SanMex share price has increased by 19%, out-performing both Mexican banks (+10.7%) and EM banks (+13.4%). Over the same period, we have cut our EPS estimates by -3.4% (2016) and by -7.2% (2017) largely due to higher provisions and opex estimates. We made no changes to our PT of Ps35.60. Given the strong share price performance we think SanMex is now fairly priced trading on 14.1x PE 17e and 1.9x PBV 17e, vs 13.6x and 1.8x for large cap Mexican bank. ([Full report](#))
- **Mexico July Credit Data:** Fundamentals from strength to strength. Gross loans reached P\$4,085bn (+1.0%mom, +15.0%yoy), slightly decelerating from June (15.2%yoy). Commercial loans continue to drive system growth (0.9%mom, +16.5%yoy), followed by consumer (+1.4%mom, +13.5%yoy) and mortgage loans (+0.9%mom, +11.0%yoy). Lending rates were flat mom. Along with system data, CNBV publishes financial data for each bank. For Banorte, QTD net income represented 26.4% of UBS 3Q16e. The equivalent number was 33.8% for Banregio, 34.3% for Genera, 13.0% for Inbursa and 36.2% for SanMex. We continue to reiterate our overweight stance on Mexican banks. Our top picks in Mexico are Inbursa, Banorte and Banregio. We also have a Buy rating on Unifin. We have a Neutral rating on Genera. ([Full report](#))
- **BMV (Neutral, PT Ps 31.0)** August Operating data: (i) Equities ADTV was Ps 13.2bn in August, +2.0%mom but QTD down -2.1% vs. 2Q16. (ii) Derivatives: ADV 33.9k contracts in August, up 52.5% mom but down -44.6% QTD vs 2Q16 driven by lower options volumes. Margin deposits ADV (a leading indicator for ADV) were Ps1.5bn in August, down 6.8%mom but up +31.8% QTD vs 2Q16. August data for equities and derivatives was weak. We have a Neutral rating in BMV.
- Luis Videgaray has renounced as Mexico's Finance Minister. In his place president Nieto has nominated José Meade, who was in charge of the Social Development Secretary.
- Mexico's CPI grew 0.28%mom and increased 2.73%yoy in August, vs +0.26%mom and +2.65%yoy in July.

Andeans

- Chile's economy grew 0.1%mom and 0.5%yoy in July, vs 0.1%mom and 1.0%yoy in June.
- Chile's Central Bank has revised their GDP growth for 2016 between 1.5% and 2% and for 2017 between 1.75% and 2.75%. The CB also informed that it plans to maintain its reference rate at 3.5%pa during a 2yr horizon.
- Chile's CPI was flat mom but grew 3.4%yoy in August, vs +0.2%mom and +4.0%yoy in July.
- Colombia's CPI decreased 0.32%mom and increased 8.1%yoy in August, vs +0.52%mom and +8.97%yoy in July.

Argentina

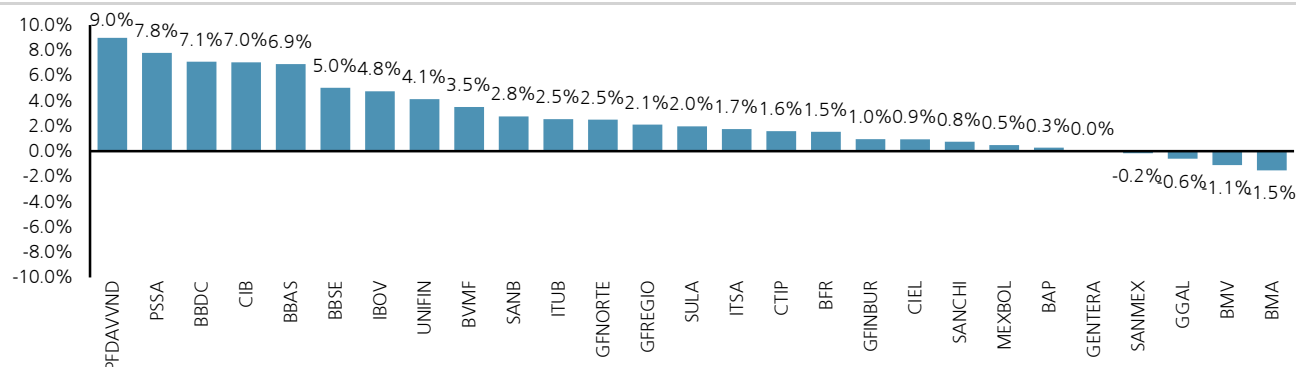
- **Argentine Banks** – Regulatory changes could be negative for bank fees: what is the potential impact? On September 7, the Argentine Senate voted in favour of a reduction in fees charged by card issuers. If the law were to be passed, we estimate a negative impact of -8%/-3%/-7% for Galicia/Macro/Frances on 2017E EPS. The proposal still needs to be voted by the Lower House (after being analysed in four commissions) and signed by the president. The apparent disconnect between government policies (reduce fee controls) and Congress can be negative for banks. Argentine banks have enjoyed abnormally high returns in the past few years, which could attract public attention. We reiterate caution from our [Initiation on Argentine banks](#) and our [2H16 Outlook on Argentine banks](#), highlight the difficult macro scenario (R. de La Fuente: [When the Going Gets Tougher](#)), and wait for a better entry point. ([Full report](#))
- Argentina's central bank, BCRA, has decreased interest rates on the Lebac 35 days by 50bps to 27.75%pa.

Stock performance

Last week performance (09/01-09/08) – USD

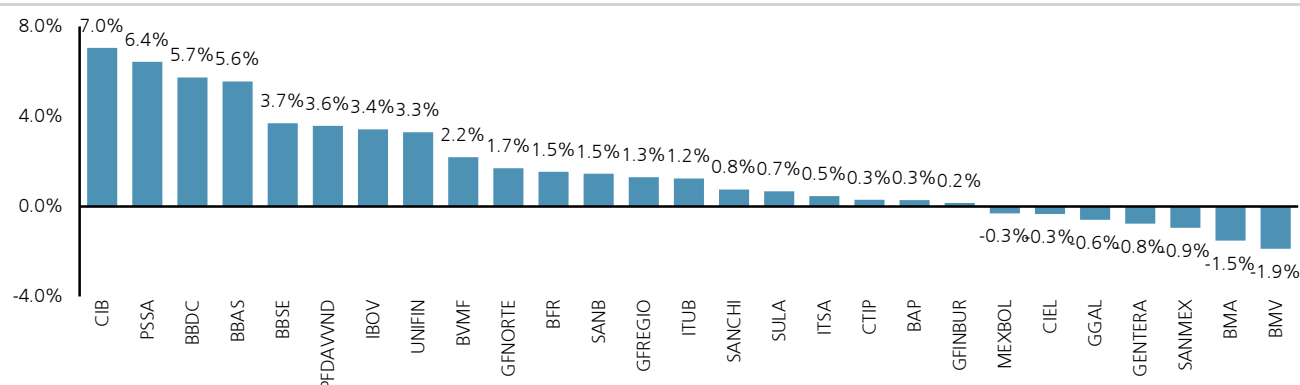
- Best: Davivienda up +9.0%
- Worst: Banco Macro down -1.5%

Figure 12: Weekly share price performance (09/01-09/08) – USD



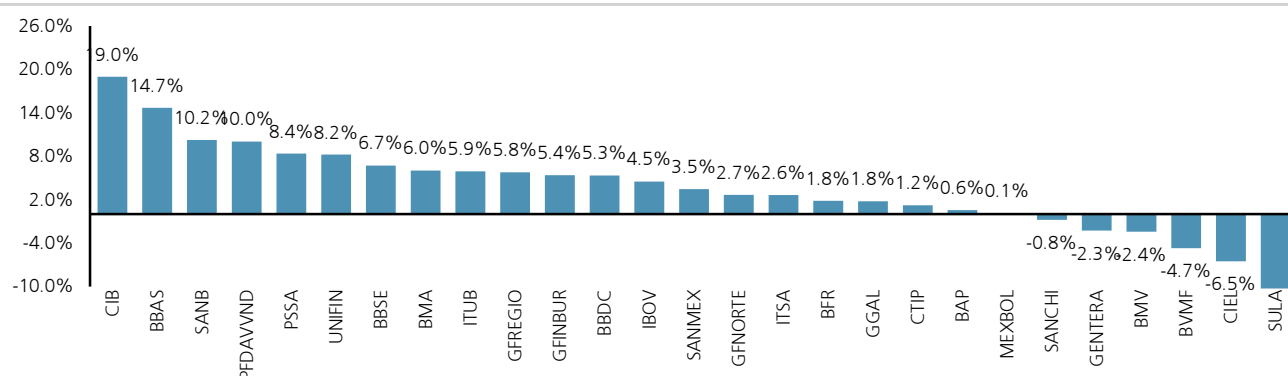
Source: Bloomberg and UBS

Figure 13: Weekly share price performance (09/01-09/08) – local currency



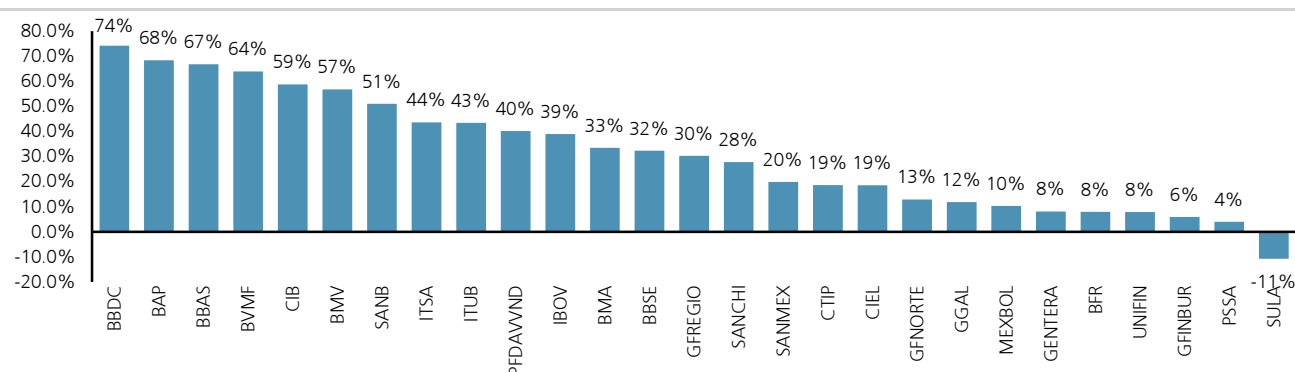
Source: Bloomberg and UBS

Figure 14: Monthly share price performance – local currency



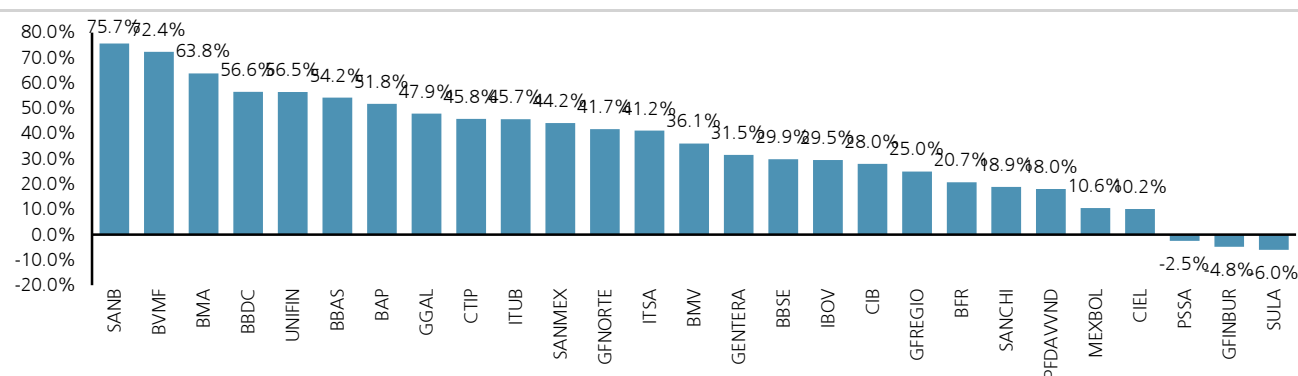
Source: Bloomberg and UBS

Figure 15: YTD share price performance – local currency



Source: Bloomberg and UBS

Figure 16: L12M share price performance – local currency



Source: Bloomberg and UBS

Liquidity Watch

Figure 17: LatAm Financials liquidity watch

Company	Ticker	Rating	Market Cap (US\$ mn)	Free Float (%)	Free Float (US\$ mn)	ADTV 5 Day (US\$ mn)	ADTV 3 Month (US\$ mn)	ADTV 6 Month (US\$ mn)	ADTV 6 Month Free Float (%)
ABC Brasil	ABCB4 BZ	Not Rated	369	69.7	257.0	0.8	0.7	0.9	0.3%
Banco Bradesco	BBDC4 BZ	Neutral	52,475	61.6	32,340.6	87.6	83.1	87.8	0.3%
Banco do Brasil	BBAS3 BZ	Sell (CBE)	21,491	30.4	6,524.6	58.2	59.1	68.5	1.0%
Banco Pine	PINE4 BZ	Not Rated	74	51.1	38.0	0.0	0.0	0.0	0.1%
Itau Unibanco	ITUB4 BZ	Buy	69,286	53.8	37,296.9	107.6	118.2	122.0	0.3%
Itausa	ITSA4 BZ	Buy	20,093	65.5	13,154.6	48.3	46.2	49.4	0.4%
Pan Americano	BPAN4 BZ	Not Rated	125	35.2	43.8	0.0	0.0	0.0	0.1%
Santander Brasil	SANB4 BZ	Sell	27,069	24.2	6,537.1	8.8	6.3	7.3	0.1%
BTG Pactual	BBTG11 BZ	Not Rated	4,451	12.8	568.4	5.8	4.1	4.0	0.7%
Banrisul	BRSR6 BZ	Not Rated	1,477	85.9	1,268.4	2.8	2.7	2.9	0.2%
BM&F Bovespa	BVMF3 BZ	Sell	10,476	92.4	9,676.1	41.0	51.5	53.9	0.6%
Cetip	CTIP3 BZ	Sell	3,485	87.7	3,056.4	14.7	19.1	22.0	0.7%
Cielo	CIEL3 BZ	Neutral	23,138	42.5	9,831.3	56.7	44.0	45.5	0.5%
BB Seguridade	BBSE3 BZ	Neutral	19,339	33.8	6,536.6	44.4	36.4	41.7	0.6%
Porto Seguro	PSSA3 BZ	Neutral	2,994	29.5	882.8	5.1	4.4	4.6	0.5%
SulAmerica	SULA11 BZ	Sell	1,734	70.6	1,224.7	3.9	3.7	3.9	0.3%
Brazil Average						66.7	67.0	70.8	0.4%
Banorte	GFNORTEO MM	Buy	15,838	81.4	12,898.5	16.5	26.0	27.4	0.2%
Gentera	GENTERA* MM	Neutral	3,109	64.2	1,996.2	2.6	4.9	5.1	0.3%
Bolsa Mexicana	BOLSAA MM	Neutral	1,095	60.0	657.1	3.1	2.1	2.4	0.4%
First Cash Financial	FCFS US	Not Rated	1,535	97.2	1,491.9	21.8	8.7	9.1	0.6%
Santander Mexico	SANMEXB MM	Neutral	12,926	24.9	3,218.6	4.5	6.3	6.6	0.2%
Banregio	GFREGIO MM	Buy	2,000	25.5	510.1	3.7	2.5	2.5	0.5%
Inbursa	GFINBURO MM	Buy	11,599	34.5	4,000.6	5.1	5.8	5.7	0.1%
Findep	FINDEP* MM	Not Rated	122	100.0	122.4	0.0	0.0	0.1	0.1%
Unifin	UNIFINA MM	Buy	1,063	36.5	388.2	1.2	1.6	1.5	0.4%
Mexico Average						8.8	12.2	12.7	0.2%
Frances	FRAN AR	Sell	3,660	24.0	878.0	0.4	0.5	0.6	0.1%
Galicia	GGAL AR	Neutral	192	93.8	180.5	0.3	0.6	0.6	0.3%
Macro	BMA AR	Neutral	4,517	61.8	2,790.3	1.5	2.1	2.1	0.1%
Argentina Average						1.0	1.4	1.4	0.1%
Banco de Bogota	BOGOTA CB	Not Rated	6,983	17.2	1,202.9	0.5	0.2	0.3	0.0%
Bancolombia	PFCOLO CB	Sell	10,116	54.4	5,503.1	5.2	3.4	3.8	0.1%
Davienda	PFDVVND CB	Buy	4,690	23.0	1,078.8	1.5	4.0	3.0	0.3%
AFP Provida	PROVIDA CI	Not Rated	1,529	n.a.	n.a.	0.0	0.0	0.0	n.a.
Banco de Chile	CHILE CI	Not Rated	11,108	32.7	3,631.8	0.7	0.8	0.9	0.0%
BCI	BCI CI	Not Rated	5,628	86.7	4,879.1	1.4	2.2	3.5	0.1%
Corpbanca	ITCB US	Not Rated	2,550	n.a.	n.a.	1.1	2.0	2.1	n.a.
Credicorp	BAP US	Buy	12,859	100.0	12,858.9	7.2	9.6	10.9	0.1%
Santander Chile	ITCB US	Neutral	10,054	31.1	3,129.7	13.1	9.1	8.5	0.3%
Andeans Average						4.3	4.2	4.4	0.1%

Source: Bloomberg and UBS. Price as of September 8th.

Events Calendar

Figure 18: LatAm Financials events in the next four weeks

Monday, September 12	Tuesday, September 13	Wednesday, September 14	Thursday, September 15	Friday, September 16
	Argentina CPI (INDEC)	Argentina CPI (City of Buenos Aires) Brazil economic activity	Chile overnight rate Peru unemployment rate Peru economic activity	
Monday, September 19	Tuesday, September 20	Wednesday, September 21	Thursday, September 22	Friday, September 23
			Argentina GDP Brazil inflation rate (IPCA-15)	
Monday, September 26	Tuesday, September 27	Wednesday, September 28	Thursday, September 29	Friday, September 30
Mexico economic activity		Brazil credit data Mexico unemployment rate	Brazil inflation rate (IGPM) Mexico overnight rate	Brazil unemployment rate Colombia unemployment rate Colombia overnight rate Chile unemployment rate
Monday, October 03	Tuesday, October 04	Wednesday, October 05	Thursday, October 06	Friday, October 07
Peru CPI	Brazil auto sales	Chile economic activity Colombia CPI		Brazil inflation rate (IPCA) Chile CPI Mexico CPI

Source: Bloomberg, UBS

LatAm Financials Valuation Comps

Figure 19: LatAm banks Comps

BANKS	Ticker	Rating	Price (local)	Target price	Target	Mkt Cap (US\$ mn)	EPS		P/E		P/BV		Adj. ROE (%)		Dividend Yield
				(local)	upside (%)		2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	12m forward (%)
Banco do Brasil	BBAS3.SA	Sell (CBE)	24.1	17.0	-29.5	21,491	2.8	3.6	8.5	6.6	0.8	0.7	9.9	11.7	3.6
Bradesco	BBDC4.SA	Neutral	30.4	30.2	-0.7	52,475	3.0	3.3	10.0	9.2	1.6	1.5	17.5	16.8	4.9
Itaú Unibanco	ITUB4.SA	Buy	36.6	39.5	7.8	69,286	3.4	3.8	10.8	9.8	1.9	1.7	18.8	18.6	3.9
Santander Brasil	SANB11.SA	Sell	23.0	17.5	-24.0	27,069	1.5	1.8	15.2	13.2	1.5	1.5	10.2	11.4	6.2
BTG Pactual ⁽¹⁾	BBTG11.SA	Not Rated	16.2	n.a.	n.a.	4,451	4.5	4.2	3.6	3.8	0.7	n.a	18.0	18.0	-
Banrisul ⁽¹⁾	BRSR6.SA	Not Rated	11.6	n.a.	n.a.	1,477	1.6	1.7	7.3	6.7	0.8	0.7	10.7	11.2	-
Brazilian Banks						176,249	3.0	3.3	10.7	9.6	1.6	1.4	15.9	16.0	4.4
Gentera	GENTERA.MX	Neutral	35.2	38.0	7.8	3,109	2.4	2.7	14.6	13.1	3.5	2.9	24.1	22.0	0.0
Banorte	GFNORTEO.MX	Buy	106.7	117.8	10.4	15,838	7.0	8.2	15.3	13.1	2.0	1.8	13.7	14.5	1.4
Inbursa	GFINBURO.MX	Buy	32.5	43.1	32.6	11,599	2.0	2.4	16.2	13.6	1.9	1.7	12.1	13.2	2.0
Santander Mexico	SANMEXB.MX	Neutral	35.6	35.6	-0.1	12,926	2.3	2.5	15.4	14.2	2.0	1.8	13.3	13.5	2.9
Banregio	GFREGIOO.MX	Buy	114.0	125.0	9.7	2,000	6.7	7.4	16.9	15.4	3.0	2.7	18.9	18.6	1.8
Unifin	UNIFINA.MX	Buy	56.3	63.0	11.9	1,063	3.4	4.0	16.4	13.7	3.9	3.3	25.4	26.4	1.5
Mexican Banks						46,537	4.0	4.7	15.6	13.6	2.2	1.9	14.4	14.8	1.9
Frances	BFR.N	Sell	20.5	22.0	7.6	3,660	1.7	1.7	11.8	12.1	3.4	2.7	30.8	28.4	1.7
Galcía	GGAL.O	Neutral	30.2	40.0	32.5	192.4	2.9	2.9	0.7	0.6	0.2	0.1	32.1	29.2	11.5
Macro	BMA.N	Neutral	77.3	100.0	29.4	4,517	7.3	7.0	10.9	11.3	3.2	2.6	33.1	28.8	0.3
Bancolombia	CIB.N	Sell	42.1	32.6	-22.5	10,116	3.5	3.7	12.0	11.5	1.5	1.4	13.2	13.2	2.8
Daviyenda	DVL.p.CN	Buy	30,040	34,000	13.2	4,690	3,708	4,041	8.1	7.5	1.4	1.2	17.7	17.1	4.2
Credicorp	BAP.N	Buy	161.2	170.8	5.9	12,859	12.5	14.6	13.1	11.2	2.2	2.0	19.0	20.1	4.5
Banco de Chile ⁽¹⁾	CHL.SN	Not Rated	75.2	n.a.	n.a.	11,108	5.6	6.0	13.4	12.5	2.7	2.4	19.8	19.8	4.6
Santander Chile	BSAC.K	Neutral	21.3	21.2	-0.7	10,054	1.6	1.8	13.3	12.3	2.3	2.1	18.2	18.4	4.5
Andean Banks						57,197			12.3	11.4	2.3	2.0	19.8	19.5	3.7
Europe					2.5	984,617			9.7	8.6	0.7	0.7	8.0		5.6
EMEA					9.1	274,715			8.1	7.0	0.9	0.9	13.3		4.5
Asia (ex-Japan)					-2.5	1,565,812			7.3	6.7	0.9	0.8	13.0		4.2
Latin America					6.6	250,875			9.7	8.6	1.7	1.5	17.3		3.7
Developed					5.6	2,491,773			10.2	9.1	0.8	0.8	8.9		4.3
GEM					0.1	2,091,403			7.6	7.0	1.0	0.9	13.7		4.2
Global Average						2,015,252			7.5	6.9	1.0	0.9	13.9		4.2

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of September 8th.

Figure 20: LatAm non-banks financial Comps

	Ticker	Rating	Price (local)	Target price (local)	Target upside (%)	Mkt Cap (US\$ mn)	EPS (Local)		P/E		P/BV		ROE (%)		EV/EBITDA		Dividend Yield	
							2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Cielo	CIEL3.SA	Neutral	32.9	39.0	18.5	23,138	1.8	2.0	18.6	16.6	8.0	6.5	50.5	43.1	10.5	9.5	1.5	3.0
Average Brazilian Acquirers							1.8	2.0	18.6	16.6	8.0	6.5	50.5	43.1	10.5	9.5	1.5	3.0
VISA	V.N	Buy	83.0	90.0	8.5	156,896	3.5	4.5	29.9	24.0	4.7	4.4	21.3	24.6	-	-	0.7	0.8
American Express	AXP.N	Not Rated	66.2	n.a.	n.a.	64,187	5.6	5.6	11.9	11.9	3.1	3.0	25.2	24.5	-	-	1.8	1.8
Mastercard	MA.N	Not Rated	100.0	n.a.	n.a.	108,178	3.6	4.2	27.7	23.8	17.5	16.8	64.8	66.7	-	-	0.7	0.7
US Card Associations							4.0	4.6	25.6	21.6	8.6	8.2	36.3	38.4			0.9	0.9
Global Payments(1)	GP.N	Not Rated	76.3	n.a.	n.a.	9,906	3.5	4.2	22.0	18.3	10.6	9.1	18.6	18.9	14.7	13.0	0.1	0.1
Heartland Payment(1)	HPY.N	Not Rated	n.a.	n.a.	n.a.	n.a.	3.2	3.5	32.3	29.1	n.a.	n.a.	26.7	25.7	n.a.	n.a.	n.a.	n.a.
US Merchant Acquirers							3.5	4.2	22.0	18.3	10.6	9.1	18.6	18.9	14.7	13.0	0.1	0.1
Western Union(1)	WU.N	Not Rated	21.3	n.a.	n.a.	11,483	1.7	1.7	12.9	12.3	7.6	7.4	57.3	49.8	9.2	9.0	3.0	3.0
Euronet Worldwide Inc(1)	EEFT.US	Not Rated	79.4	n.a.	n.a.	4,135	4.1	4.6	19.5	17.3	5.2	n.a.	n.a.	n.a.	11.8	10.2	0.0	0.0
Other Payment Providers							2.3	2.5	14.6	13.6	7.6	7.4	57.3	49.8	9.2	9.0	3.0	3.0
BM&F Bovespa	BVMF3.SA	Sell	17.7	16.5	(7.0)	10,476	0.5	0.9	15.6	14.6	1.7	1.7	11.1	11.5	17.2	14.0	1.2	4.4
Bolsa Mexicana	BOLSAA.MX	Neutral	34.5	31.0	(10.1)	1,095	1.6	1.7	21.1	19.7	3.6	3.5	17.4	17.7	12.5	11.0	3.4	3.9
CETIP	CTIP3.SA	Sell	43.7	40.0	(8.4)	3,485	2.2	2.3	18.3	17.2	6.1	5.4	35.1	33.2	12.5	10.8	3.6	3.5
Latam exchanges							1.0	1.3	16.6	15.6	2.9	2.7	17.1	17.0	15.8	13.1	1.9	4.1
Hong Kong E&C	0388.HK	Neutral	198.6	185.0	(6.8)	30,944	5.1	5.6	39.1	35.7	7.6	7.6	20.0	21.2	28.3	25.7	2.3	2.5
Bursa Malaysia	BMYS.KL	Buy	8.9	10.1	14.1	1,166	0.4	0.4	22.6	20.6	5.8	5.7	25.8	27.8	15.8	14.4	4.1	4.5
Singapore Exc.	SGXL.SI	Neutral	7.6	7.3	(3.9)	6,063	0.3	0.4	22.9	21.1	8.2	7.5	36.1	37.3	15.7	14.4	3.7	3.8
Asian exchanges							4.2	4.6	36.0	32.9	7.7	7.5	22.8	23.9	25.9	23.5	2.6	2.8
Porto Seguro	PSSA3.SA	Neutral	29.8	30.5	2.3	2,994	2.9	3.1	10.1	9.7	1.4	1.3	15.8	15.0	-	-	3.4	3.6
SulAmerica	SULA11.SA	Sell	16.4	17.5	6.9	1,734	2.0	2.2	8.3	7.6	1.1	1.0	14.4	14.0	-	-	3.0	4.0
BB Seguridade	BBSE3.SA	Neutral	31.1	34.0	9.3	19,339	2.1	2.3	14.9	13.7	7.4	6.7	52.3	51.3	-	-	5.4	5.8
Brazilian insurance companies							2.2	2.4	13.8	12.8	6.2	5.6	45.0	44.1			5.0	5.4
AIA Group	1299.HK	Buy	50.9	58.8	15.5	79,061	0.3	0.3	24.4	20.5	2.5	2.3	10.5	11.7	-	-	1.5	1.6
China Life Insurance	2628.HK	Buy	20.6	21.5	4.6	88,164	1.0	1.1	17.7	16.7	1.5	1.4	8.5	8.6	-	-	1.9	2.1
Ping An Insurance (Group)	2318.HK	Buy	43.3	48.4	11.8	99,128	3.3	3.6	11.3	10.5	2.0	1.7	18.8	17.3	-	-	1.6	1.7
Asian insurance							1.6	1.8	17.3	15.5	2.0	1.8	12.9	12.8			1.7	1.8

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of September 8th.

Figure 21: Financials latest published reports

Date	Subject	Title
8-Sep-16	Argentine Banks	Argentine Banks "Regulatory changes could be negative for bank fees: what is the ..."
7-Sep-16	Brazilian banks	Mobile banking in Brazil "UBS Evidence Lab: Cross-selling and efficiency gains ahead?"
6-Sep-16	Santander Mexico	Santander Mexico "Downgrade to Neutral on valuations"
5-Sep-16	Mexico Credit Tracker	UBS: Mexico Credit Tracker "Fundamentals: from strength to strenght"
5-Sep-16	BM&F Bovespa	BM&F Bovespa "Comparing BVMF with global exchanges: is there more upside?"
4-Sep-16	LatAm Financials Insights	UBS: LatAm Financials Insights "How could Bradesco look post HSBC integration?"
30-Aug-16	Argentine Banks	Argentine Banks "2H16 outlook: what are the signs of the normalization?"
25-Aug-16	Brazil Credit Tracker	Brazil Credit Tracker - July "NPL deteriorates again"
23-Aug-16	Davivienda	Davivienda "2016 strong beat on improved asset quality"
18-Aug-16	Bancolombia	Bancolombia "2016 beat on higher NIM and lower opex"
14-Aug-16	LatAm Financials Insights	UBS Global I/O: LatAm Financials Insights "Are EM banks leaders in mobile banking?"
11-Aug-16	BBVA Frances	BBVA Frances "2016 miss on higher provisions and taxes"
11-Aug-16	BM&F Bovespa	BM&F Bovespa "2016 small miss on higher opex. Can valuations decouple from ..."
11-Aug-16	LatAm Exchanges Tracker	UBS: LatAm Exchanges Tracker "Weaker trends to start 3Q"
11-Aug-16	Banco do Brasil	Banco do Brasil "2016 another earnings miss on rising delinquency risk"
9-Aug-16	Grupo Galicia	Grupo Galicia "2016 miss on lower margins"
9-Aug-16	Banco Macro	Banco Macro "2016 strong beat; excluding trading, trends were mixed"
9-Aug-16	Credicorp	2Q earnings call: a reassuring message
8-Aug-16	Credicorp	Credicorp "2016 Small miss on higher costs & provisions"
8-Aug-16	BB Seguridade	BB Seguridade "2016 beat on higher insurance premiums and pension contributions"
7-Aug-16	LatAm Financials Insights	UBS: LatAm Financials Insights "Competition pressures rising for EM banks"
4-Aug-16	Cetip	Cetip "2016 small beat, in a low growth environment"
2-Aug-16	Mexico Credit Tracker	UBS: Mexico Credit Tracker "Loan growth - back on track; healthier asset quality"
2-Aug-16	Porto Seguro	Porto Seguro "2016 miss on higher auto loss ratio"
2-Aug-16	Itau	Itau Unibanco "2016 small miss & negative guidance revision"
1-Aug-16	Cielo	Cielo "2016 in line: healthy card volume growth, but some cost pressure"
31-Jul-16	LatAm Financials Insights	UBS: LatAm Financials Insights "Does FinTech matter for EM banks?"
28-Jul-16	SulAmerica	SulAmerica "2016 beat on higher financial income"
28-Jul-16	Santander Chile	Santander Chile "2016 miss on higher provisions and lower trading"
28-Jul-16	Bradesco	Bradesco "2016 small beat on mixed trends"
27-Jul-16	Inbursa	Inbursa "2016 miss on higher taxes"
27-Jul-16	Brazil Credit Tracker	Have NPLs reached na inflection point?
27-Jul-16	Santander Mexico	Santander Mexico "2016 small beat on lower provisions"
27-Jul-16	Santander Brasil	Santander Brasil "2016 (recurring) earnings miss given sharp provision rise"
26-Jul-16	Genera	Genera "2016 small beat driven by better margins"
26-Jul-16	Cielo	Cielo "Meeting with PagSeguro confirms online/offline convergence and regulatory..."
25-Jul-16	Banregio	Banregio "2016 confirms quality growth; strong beat due to trading and lower ..."
24-Jul-16	LatAm Financials Insights	UBS: LatAm Financials Insights "EM banks: two positive inflection points"
21-Jul-16	Unifin	Unifin "Strong 2Q confirms fast growth; reiterate Buy"
21-Jul-16	Banorte	Banorte "2016 in line: good quality and positive guidance"
19-Jul-16	Bolsa Mexicana	Bolsa Mexicana "2016 healthy beat suggests upside risk to guidance"
17-Jul-16	LatAm Financials Insights	UBS: LatAm Financials Insights "Are LatAm banks at an inflection point?"

Source: UBS

Appendix

Methodology

For this report, UBS Evidence Lab conducted two studies: a consumer survey; and a survey of banks' management/decision makers (bank management survey) in the mobile banking space within the business.


UBS Evidence Lab consumer survey

The UBS Evidence Lab consumer survey was sent out via an online methodology to a representative panel of adult (18+ years of age) consumers across 24 countries in April - May 2016. In total, 27,914 respondents completed the survey, including 1,160 from Brazil. The qualification criterion was based on holding a bank account with one of the banks in the survey. The margin of error for whole sample responses is between +/-0.59 (total sample) and +/-2.99 (individual countries). The 24 countries surveyed comprised Australia, Brazil, Canada, China, France, India, Indonesia, Italy, Japan, Kenya, Mexico, the Netherlands, Nigeria, Poland, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Thailand, Turkey, the UK and the US.

UBS Evidence Lab bank management survey

The UBS Evidence Lab bank management survey was sent out via an online methodology to a selection of banks across the same countries included in the UBS Evidence Lab consumer survey (apart from Kenya and Nigeria) in April – May 2016. Out of the 177 banks approached, 61 responded (including 3 in Brazil), giving a response rate of 35%. The survey was conducted in both English and local languages on an anonymous basis.

**UBS Evidence Lab provides our research analysts with rigorous primary research. The team conducts representative surveys of key sector decision-makers, mines the Internet, systematically collects observable data, and pulls information from other innovative sources. They apply a variety of advanced analytic techniques to derive insights from the data collected. This valuable resource supplies UBS analysts with differentiated information to support their forecasts and recommendations—in turn enhancing our ability to serve the needs of our clients.*



Valuation Method and Risk Statement

Our price targets for Banco do Brasil, Bradesco, Itau, Santander Brasil, Banorte, Inbursa, Santander Mexico, Bancolombia, Credicorp and Santander Chile are derived from Gordon Growth Model.

Our price targets for Bolsa Mexicana, BM&F Bovespa, Cetip and Cielo are derived from DCF model.

Our price targets for Banregio, Gentera, Unifin, BBVA Banco Frances, Galicia, Banco Macro, Davivienda, BB Seguridade, Porto Seguro and SulAmerica are derived from residual income model.

Our price target for Itausa is derived from a sum-of-the-parts model.

LatAm financials' performance is closed linked to the local economic conditions and changes in interest rate and foreign exchange. Also, Latin American financials may be affected by changes in regulatory framework and the overall local competition and foreign competition.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	25%
Sell	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Limited: Philip Finch; Peter Carter. **UBS Brasil CCTVM S.A.:** Frederic De Mariz; Mariana Taddeo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Banco Davivienda ^{5, 6a, 6b, 7}	DVI_p.CN	Buy	N/A	P30,040.00	08 Sep 2016
Banco do Brasil ^{5, 6a, 6b, 7, 20, 22}	BBAS3.SA	Sell (CBE)	N/A	R\$24.13	08 Sep 2016
Banco Macro SA ^{16b}	BMA.N	Neutral	N/A	US\$77.27	08 Sep 2016
Bancolombia ^{5, 6a, 6b, 7, 16b}	CIB.N	Sell	N/A	US\$42.07	08 Sep 2016
Banorte ⁷	GFNORTEO.MX	Buy	N/A	P106.68	08 Sep 2016
Banregio ^{7, 16a}	GFREGIOO.MX	Buy	N/A	P113.95	08 Sep 2016
BB Seguridade	BBSE3.SA	Neutral	N/A	R\$31.11	08 Sep 2016
BBVA Banco Frances SA ^{5, 16b}	BFR.N	Sell	N/A	US\$20.45	08 Sep 2016
BM&F Bovespa ⁴	BVMF3.SA	Sell	N/A	R\$17.74	08 Sep 2016
Bolsa Mexicana ^{16a}	BOLSAA.MX	Neutral	N/A	P34.50	08 Sep 2016
Bradesco ^{6a, 6b, 7, 16b}	BBDC4.SA	Neutral	N/A	R\$30.40	08 Sep 2016
Cetip	CTIP3.SA	Sell	N/A	R\$43.68	08 Sep 2016
Cielo	CIEL3.SA	Neutral	N/A	R\$32.91	08 Sep 2016
Credicorp ^{7, 16b}	BAP.N	Buy	N/A	US\$161.22	08 Sep 2016
Gentera ⁵	GENTERA.MX	Neutral	N/A	P35.24	08 Sep 2016
Grupo Financiero Galicia SA ^{5, 16b}	GGAL.O	Neutral	N/A	US\$30.20	08 Sep 2016
Inbursa ⁷	GFINBURO.MX	Buy	N/A	P32.50	08 Sep 2016
Itau Unibanco ^{7, 16b}	ITUB4.SA	Buy	N/A	R\$36.64	08 Sep 2016
Itausa ⁷	ITSA4.SA	Buy	N/A	R\$8.70	08 Sep 2016
Porto Seguro ²	PSSA3.SA	Neutral	N/A	R\$29.80	08 Sep 2016
Santander Brasil ^{6a, 6b, 7, 16b}	SANB11.SA	Sell	N/A	R\$23.03	08 Sep 2016
Santander Chile ^{5, 7, 16b}	BSAC.K	Neutral	N/A	US\$21.34	08 Sep 2016
Santander Mexico ^{16b}	SANMEXB.MX	Neutral	N/A	P35.63	08 Sep 2016
SulAmerica	SULA11.SA	Sell	N/A	R\$16.37	08 Sep 2016
Unifin ^{5, 18}	UNIFINA.MX	Buy	N/A	P56.31	08 Sep 2016

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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