

LatAm Financials Insights

EM banks: what are the key themes in 2016?

Equities

Latin America
Financial

Another challenging year seen for EM banks next year

With EM banks down 24.5% in US dollars year-to-date, 2015 is shaping up to be one of the weakest in the past twenty years. Looking ahead, we think 2016 will be another challenging year for EM banks – in our latest Global banks outlook 2016 publication, we reiterate our Underweight stance on EM banks ([click for report](#)). In our view, five key themes will be important drivers for fundamentals and share price performance next year: 1) external risks; 2) diverging rate outlook; 3) weaker credit demand; 4) rising NPL risk; and 5) RWA convergence.

Mexican small banks; positive view even after the outperformance

Banregio, Gentera, and Unifin have had a strong 2015. They reported robust 3Q. We met with the companies recently to discuss operating trends. We continue to favour those stocks due to the underpenetration of their markets and good risk profile.

How systemically important is BNDES?

Brazil's state-run national development bank provides long-term funding at subsidized rates to corporates, small-medium sized enterprises as well as to the agriculture sector. BNDES is one of the largest developments globally and charges much lower interest rates compared to bank loans, with NPLs at 0.8%, well below total system at 3.2%. Given rising concerns over Brazil's economy and asset quality outlook, we take a look at BNDES, to gauge how systemically important this financial institution is.

Weekly Performance (US\$ terms, closing prices as of Thursday, December 10th)

Best performer was Cetip up 2.5%, while the worst was Porto Seguro down -8.3%.

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Figure 1: LatAm Financials coverage summary

	Rating	Price LC	Price Target LC	Upside (%)	Div.Yield 12M Fwd (%)	Mkt Cap (USD millions)	P/E 2015E	P/E 2016E	1-week USD	1-week	1-month	YTD	1-year
Banco do Brasil	Neutral (CBE)	18.00	20.00	11.1	9.4	13,533	4.4x	4.3x	-0.3	1.1	7.0	-17.6	-20.4
Bradesco	Buy	21.00	30.80	46.7	6.0	27,818	6.0x	5.8x	-5.4	-4.1	-1.9	-26.7	-27.7
Itau Unibanco	Buy	28.80	38.00	31.9	5.0	45,973	7.3x	7.0x	-0.7	0.7	5.8	-4.4	-6.6
Itaúsa	Buy	7.62	10.50	37.8	n.a.	13,513	n.a.	n.a.	0.4	1.8	5.5	-6.3	-7.2
Santander	Neutral	15.51	16.30	5.1	6.2	15,466	10.8x	9.7x	-1.3	0.1	7.0	24.2	24.4
Banorte	Buy	88.51	105.60	19.3	1.4	14,270	14.3x	12.1x	-4.1	-1.5	-3.8	9.7	13.9
Banregio	Buy	83.65	102.00	21.9	0.0	1,595	15.7x	14.1x	-5.0	-2.5	-5.9	14.4	19.2
Gentera	Buy	31.73	34.00	7.2	1.1	3,040	16.2x	13.9x	-2.3	0.4	-0.5	10.8	17.7
Inbursa	Buy	31.56	47.00	48.9	1.9	12,232	17.8x	13.6x	-2.8	-0.2	-6.8	-16.3	-6.5
Santander Mexic	Buy	30.58	35.60	16.4	3.4	12,048	14.9x	12.9x	-4.4	-1.8	-3.0	0.9	7.6
Unifin	Buy	51.71	62.00	19.9	1.5	1,061	22.1x	16.5x	-6.0	-3.5	-1.9	n.a.	n.a.
Bancolombia	Sell (UR)	24.98	30.80	23.3	5.0	6,007	6.5x	6.3x	-6.6	-6.6	-26.9	-46.6	-43.1
Credicorp	Buy	100.91	166.00	64.5	11.3	8,049	8.2x	7.5x	-2.5	-2.5	-10.0	-36.1	-36.1
Daviyenda	Buy	20,900.0	30,000.0	43.5	0.0	2,860	6.8x	6.7x	0.3	3.7	-12.5	-23.0	-18.6
Santander Chile	Neutral	17.91	21.30	18.9	0.0	8,438	11.3x	9.7x	-3.2	-3.2	-3.1	-4.3	-4.9
BM&F Bovespa	Neutral	11.97	13.00	8.6	5.5	5,967	12.2x	11.5x	0.0	1.4	0.5	27.3	38.5
Bolsaa	Neutral	22.92	29.00	26.5	5.1	790	16.6x	14.9x	-4.0	-1.4	-15.4	-10.8	-1.4
Cetip	Sell	38.97	34.00	-12.8	3.6	2,625	16.7x	17.4x	2.5	3.9	5.5	26.9	31.4
Cielo	Buy	36.40	50.00	37.4	1.8	18,003	19.6x	17.5x	-1.7	-0.3	-0.6	6.8	6.5
BB Seguridade	Buy	28.05	37.00	31.9	6.1	14,719	14.1x	13.0x	-2.3	-0.9	2.0	-7.8	-7.6
Porto Seguro	Neutral	33.01	36.00	9.1	5.7	2,800	10.5x	9.9x	-8.3	-7.0	1.9	13.3	19.7
Sul America	Sell	21.11	18.80	-10.9	4.2	1,887	9.8x	9.6x	-7.7	-6.4	7.2	66.8	82.0

Source: UBS and Bloomberg. Note: price as of December 10th

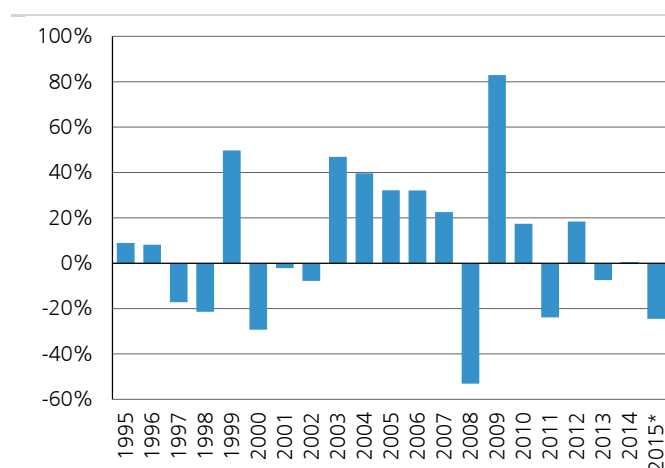
LatAm Financials Insights

As we approach the end of the year, we would like to wish you a happy holiday season. As for us, we will be now taking a break. This is our last weekly publication in 2015 but we will come back in the New Year.

1) EM banks: what are the key themes in 2016?

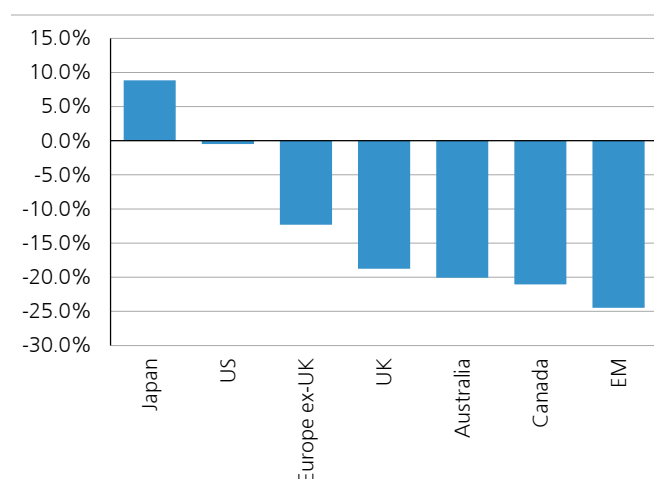
The performance of emerging market (EM) banks this year is shaping up to be one of the weakest in the past twenty years. Year to date, sector performance is down 24.5% in US dollar terms (in local currency it is down 16.3%), versus an average annual performance (in US dollar terms) of +11.3% from 2000-14. On only two occasions previously has sector performance been weaker: in 2008 at the height of the global financial crisis when the sector was down 53% and in 2000, post the Asian banking crisis, when the sector was down 29%.

Figure 2: GEM banks' annual performance (US\$)



Source: Thomson Reuters DataStream, UBS

Figure 3: Bank sector performance (US\$), YTD



Source: Thomson Reuters DataStream, UBS

Looking ahead, we think 2016 will be another challenging year for EM banks – in our latest Global banks outlook 2016 publication, we reiterate our Underweight stance on EM banks ([click for report](#)). In our view, five key themes will be important drivers for fundamentals and share price performance next year.

Theme 1: External risks

We expect risk-aversion towards the sector to persist, given increasing uncertainties over Chinese growth and with imminent rate hikes by the Federal Reserve looking likely. Our US economics team forecast the Fed tightening by 25bps in December 2015, followed by a cumulative 100bp rise in each of the next two years, leaving the funds rate at 2.38% by year-end 2017, while in China, our economist is looking for GDP growth to weaken to 6.2% in 2016 and 5.8% in 2017, the lowest period of growth since 1990 (when GDP growth was 3.8%). Prospects of a new tightening cycle in the US and growth uncertainties in China could raise market concerns about outflows of liquidity and FX volatility in emerging markets.

Theme 2: Diverging rate outlook

As is the case in developed markets, the interest rate outlook across emerging markets is mixed. Of the 26 countries under our EM banking coverage, we expect rates to go up in 10 countries, 6 to remain unchanged and 8 to go down. Although inflation is generally viewed as benign in many countries, concerns about currency weakness in a Fed tightening environment could put pressure on some central banks to raise policy rates at a time when growth is already slowing. In terms of potential implications for banks, we expect NIM pressure to arise in countries seeing rate cuts, such as China, but NIMs could improve in markets where rates are expected to go up, such as Mexico.

Theme 3: Weaker credit demand

Reflecting macro growth uncertainties, we see downside risk to loan growth in emerging markets, currently projected at 10.0%. In our 4Q15 banking survey, 60% of EM respondents now see downside risk to loan growth (UAE, Brazil, Chile, China, Colombia, Georgia, Greece, Hong Kong, India, Kazakhstan, Malaysia, Russia, Singapore, South Africa, and Taiwan), up from 52% in the 3Q15 survey, while only 12% (previously 24%) see upside risk (Czech Republic, Mexico and Poland).

Theme 4: Rising NPL risk

Given slower macro growth and reflecting the late stage of the credit cycle, delinquency risk in emerging markets is rising and broadening. Market focus is on two countries, China and Brazil, where an extended period of rapid credit growth has coincided with considerably weaker economic activity, but delinquency trends are also worsening. We do not envisage a full-blown NPL crisis next year, but we do expect a rising provisioning burden to weigh on profitability and returns: bottom-up, we now forecast EM banks' EPS growth at only 5.9% in 2016 (versus an historical average of 18.9% p.a.) with ROE at 14.9%, down from 15.6% in 2015 and a historical average of 18.2% since 2000.

Theme 5: RWA convergence

Banks in developed markets have lower RWA density (i.e., risk weighted assets/total assets) than EM banks given their larger mortgage exposures and following the introduction of Basel II risk models. Over the past year, bank regulators have become increasingly uncomfortable with the divergence in risk weightings used by banks in different countries as illustrated by the recent introduction of risk weighted floors for mortgages at 25% by the Australian regulator. As regulators look to harmonise credit risk weightings, we could start to see a convergence in RWA density that could enhance EM banks' capital ratios. For instance, in July 2015, as a macro-prudential easing measure, Indonesian policy makers cut risk weights on auto loans and mortgages with potential scope for lower risk weightings for banks in Turkey and Chile next year.

2) Mexican small banks; positive view even after the outperformance

Banregio, Gentera, and Unifin have had a strong 2015. They reported robust 3Q. We met with the companies recently to discuss operating trends. We continue to favor those stocks due to the underpenetration of their markets and good risk profile.

Strong growth with quality

Growth remains one of the best among Latin America banks. We expect loan and leasing growth of 21% on average in 2016, following 34% in 2015. In particular, we follow Gentera's soft guidance of loan growth of 15-17% in 2016. We expect loan growth of 17% at Banregio supported by outstanding retail deposit growth. We expect leasing growth of 32% at Unifin, despite the recent slowdown in approval rates to 37% (from 40% previously). Those niche markets are still underpenetrated with little competition from the larger banks.

Asset quality remains strong. The NPL ratio reached 1.9% for Banregio, 3.0% for Gentera (outstanding by microfinance standards) and just 0.5% for Unifin. By comparison, the NPL ratio for the Mexican banking system is higher at 2.5%. The good asset quality is due to solid origination standards. In the case of Banregio, the NPL ratio increased in the third quarter to 1.9% from 1.5% in 2Q15, and this increase was due to the consolidation of an acquired portfolio of CIT. We see this new level as sustainable.

Funding and capital positions remain solid. In terms of funding, those three companies have a solid position, even though they depend to some extent on wholesale funding. For Gentera and Unifin, the high capital base means the dependence on the markets is limited. Gentera for example has been active on the bond market to increase the maturity of its debt, while Unifin is a regular player on the securitization market. In the case of Banregio, 28% of funding comes from time deposits.

So we don't think that funding availability is an issue. Funding cost could increase as benchmark rates in Mexico increase, but asset yields should also adjust upwards. Overall, whenever benchmark rates go up in Mexico, Banregio would be the main beneficiary. In the case of Gentera and Unifin, the high policy rates could have a slightly negative impact.

Finally on valuation, those small caps have had a strong year so far. Unifin is up around 90% since its IPO in May. Gentera and Banregio are up close to 11% YTD. This compares with -1.7% for the Mexican exchange (MexBol) year to date. When we look at multiples, three small caps trade on 14.8x PE 2016e, which is higher than for the larger banks which trade on 12.8x PE 2016e. When we incorporate the growth potential, PEG ratios suggest that the premium of Gentera and Banregio is 24% over the large banks. Unifin, in turn, trades at a discount versus the rest of the sector, despite its recent outperformance.

3) How systemically important is BNDES?

Given rising concerns over Brazil's economy and asset quality outlook, we take a look at BNDES, the non-listed development bank, to gauge how systemically important this financial institution is.

Who is BNDES?

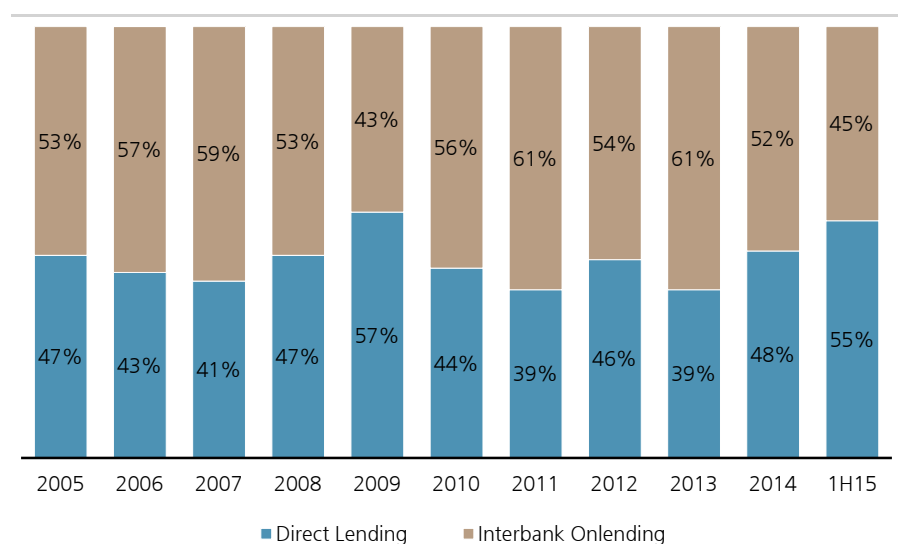
Set up in 1952, BNDES, Brazil's state-run national development bank, provides long-term funding at subsidized rates to corporates, small-medium sized enterprises as well as to the agriculture sector. The public bank aims to provide funding for development projects such as large-scale industrial and infrastructure projects as well as for social investments such as education, health and transportation.

BNDES is one of the largest developments globally with total assets of R\$938bn (or US\$237bn). According to Central Bank, BNDES is the 4th largest bank in Brazil, after BB, Itau and Caixa. As at October 2015, BNDES had total loans of R\$669bn, or 21.2% of system-wide loans. This compared to a market share of 34.6% among other public banks and a market share of 29.8% for private banks with foreign banks having a 14.4% market share. Since October 2007, BNDES' loan book has grown in size by 4.5x or by an average of 20.8% p.a., ahead of the banking system that has grown by an average of 17.2% p.a.

BNDES typically lends via two channels:

- **Direct lending:** whereby BNDES gives a loan directly to the company – since 2005, direct lending has accounted for 46% of total disbursements.
- **Inter-bank on-lending:** whereby BNDES provides funding to banks who then use the funds to lend to borrowers in designated industrialised. Since 2005, inter-bank on-lending has accounted for 54% of total disbursements.

Figure 4: Direct lending vs Interbank On-lending



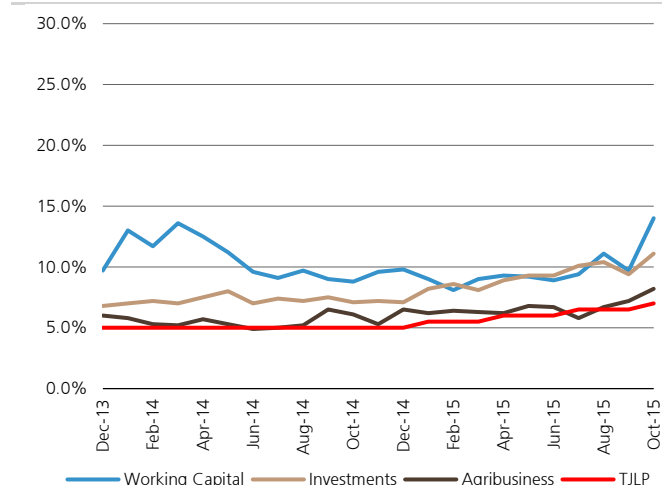
Source: BNDES

Lower rates

BNDES charges much lower interest rates compared to bank loans, typically at TJLP (the long term interest rate, currently at 7.0% and at 5.0% during 2014) plus a

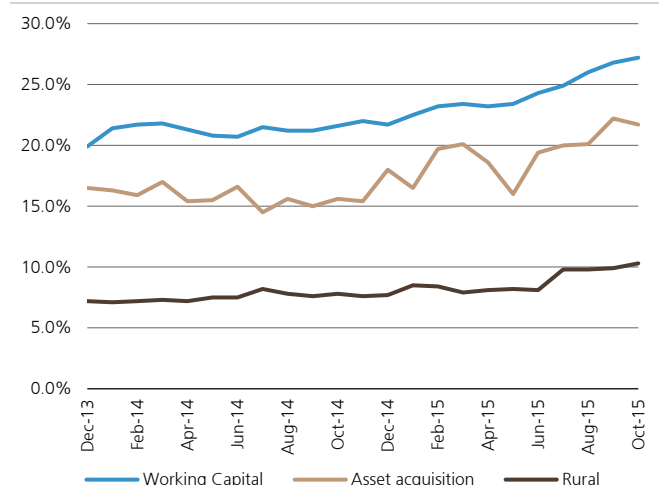
spread that. According to central bank data (October 2015), BNDES lending rates for loans to the agribusiness averaged at 8.2% (from 6.1% a year ago). For working capital, the rate charged by BNDES was 14.0% (from 7.1% in Oct 14) while for investments it was 11.1% (from 7.1% in Oct 14). In contrast, lending rates for bank loans for working capital were 27.2% (from 21.6% in Oct/14), for asset acquisition it was 21.7% (from 15.6% in Oct/14) with rural loans at 10.3% (from 7.8% in Oct/14).

Figure 5: BNDES' lending rates



Source: Central Bank

Figure 6: Banks' lending rates



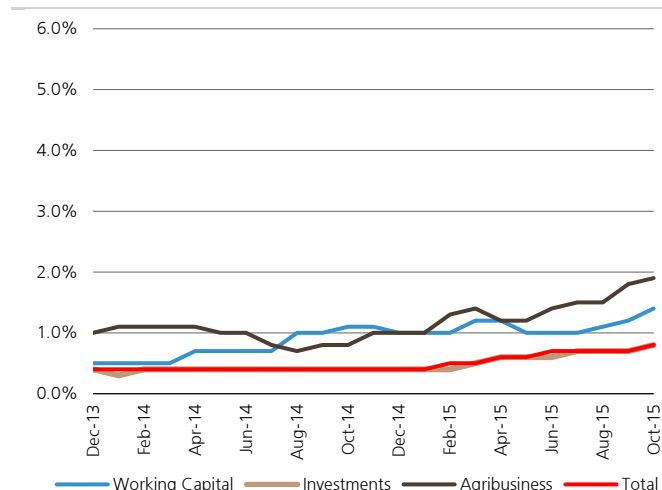
Source: Central Bank

NPL rising, but still at low level

As at October 2015, according to Central Bank data, total BNDES NPL was at 0.8%, well below total system (unmarked and earmarked loans) at 3.2%.

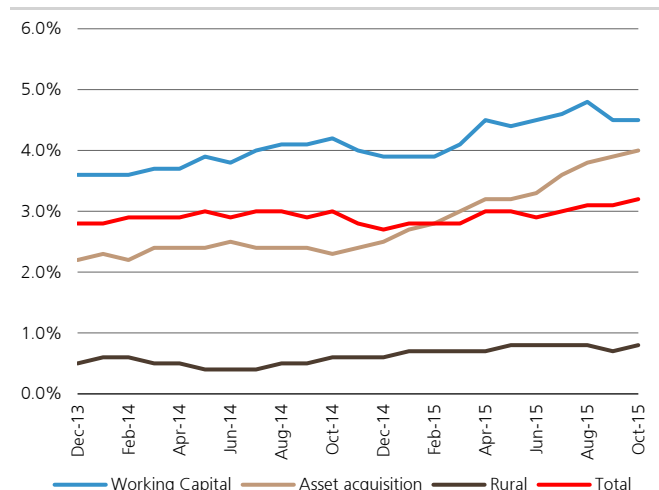
Worth to mention that the credit risk of the inter-bank on-lending, which represents around 43% of total portfolio, is not at BNDES, but at the bank.

Figure 7: BNDES NPL



Source: Central Bank

Figure 8: System NPL

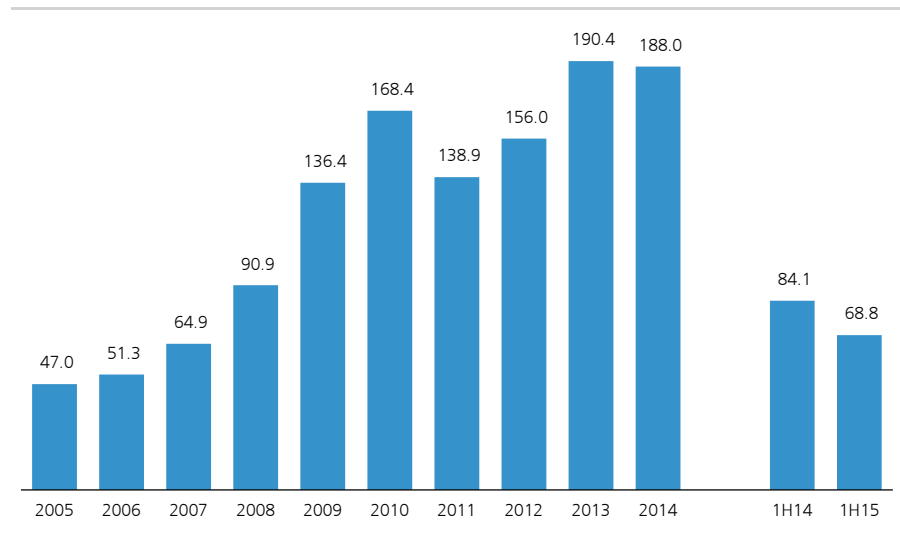


Source: Central Bank

Lower disbursements

According to BNDES, total disbursements amounted R\$68.8mn in 1H15, 18.2% lower than in 1H14. In the current scenario no new resources from the Brazilian Treasury given fiscal situation, we can expect lower disbursements in the coming years.

Figure 9: BNDES disbursements (R\$bn)



Source: BNDES

Recent changes

Given Brazil's weak economic performance, the government has come under increasing pressure to address the fiscal deficit and to reduce state intervention in the economy. From December 2014 to October 2015, the government increased the TJLP rate from 5.0% to 7.0% in an attempt to reduce BNDES lending subsidies.

Last December, the government also indicated changes in BNDES's policies, redefining the role of the development bank. Now, only businesses related to "priority" sectors such as infrastructure, the environment, innovation and SMEs will receive subsidized BNDES funding at TJLP. Other sectors would receive a borrowing rate based on a combination of market rates and TJLP and/or a reduction in the share of BNDES funds at the TJLP rate.

Key highlights of last week

Brazil

- **BM&F Bovespa (Neutral, PT R\$13.0)** announced that their board approved a share buyback program of 40mn common shares during 355 days (from 11-Jan-16 to 31-Dec-16. This represents 2.1% of the total number of shares and around R\$480mn. The institution also announced a OPEX budget for 2016 (R\$640mn-R\$670mn), a new CAPEX budget for 2016 (R\$200mn-R\$230mn) vs previous (R\$165mn-R\$195mn), as well as the payment of R\$450mn in IOC.

November Operating data: slower equities and derivatives. (i) Equities: ADV was R\$6.36bn, -15.6%mom; QTD up 6.7% vs 3Q15 (ii) Derivatives: ADTV was 2.4mn contracts, down -6.7%mom; QTD down -24.6% vs. 3Q15, driven mostly by a decrease in Interest rates in BRL (-5.3% mom and -38.1% qoq). RPC decreased 0.7%mom; QTD +16.4% vs. 3Q15. We have a Neutral on BVMF. ([Full report](#))

- **Cetip (Sell, PT R\$34.0)** November Operating data: (i) Auto financing: Cetip posted higher numbers in its auto financing unit, with 20.3k auto liens registered; +4.6% mom, but down QTD -2.7% vs. 3Q15. (ii) . Securities: Registration volumes were up +8.1% mom (QTD up +5.9% vs. 3Q15), but decreased for derivatives, (-19.3%mom and QTD down -26.2% vs. 3Q15). Custody was relatively flat mom. We have a sell on Cetip.
- **Banco do Brasil** announced the conclusion of a bond buyback plan, with the repurchase of 86% of the amount originally proposed. The bank bought back US\$513mn (US\$300mn of 9% perpetual bonds, US\$112.8 of 9.25% perpetual subordinated bonds and US\$100mn of 3.875% senior note due in 2022). They estimate a positive impact of R\$210mn, net of taxes, in 4Q15 earnings.
- **Bradesco** announced that it has done contract amendments with Via Varejo to extend card and banking contracts to August 28, 2029. Bradesco paid R\$550mn to Via Varejo, regarding contract fees and R\$154mn regarding other compensations.
- Roberto Setubal, Itau CEO, said they would be interested in an acquisition in Mexico in order to improve presence in LatAm, but first they need to conclude Corpbanca merger.
- Brazil November inflation (IPCA-15) increased to 1.01%, from 0.82% in October. The index in the 12 months through November slowed to 10.48% vs 9.93% a month earlier.
- According to the press, two members of the Brazil's economic team informed that Brazil's Finance Ministry may announce by year-end a tax increase on local notes (LCI and LCA) issued by financial institutions that are backed by real-estate and agriculture loan portfolios.
- According to Serasa, consumer credit demand remained relatively stable mom, but decreased -2.5%yoy in November (vs -2.4% mom; -8.5% yoy in October).

Mexico

- **BMV (Neutral, PT Ps.29.0)** November Operating data: (i) Equities ADTV was Ps.12.5bn in November, +5.7% mom and QTD down -2.1% vs. 3Q15. (ii) Derivatives: ADTV 46.3k contracts in November, down -8.0% mom driven by lower future volume. November data for derivatives was weak, but we saw positive numbers for equities. We have a Neutral rating in BMV.
- Inbursa announced that it has reached a commercial agreement with FCA Mexico to provide financing to the customers and dealers of the different brands of FCA in Mexico (Chrysler, Jeep, Dodge, Ram Fiat, Alfa Romeo, Mitsubishi and Mopar) through the company FC Financial.
- According to the press, BBVA is interest in acquiring loan portfolio or other institutions in Mexico. At the moment the bank has 22% of the total assets of the Mexican system.
- Mexico inflation increased to 0.55% mom in November (vs. 0.51% in October), while annual inflation rate reached 2.21% (vs. 2.48% in October).

Andeans

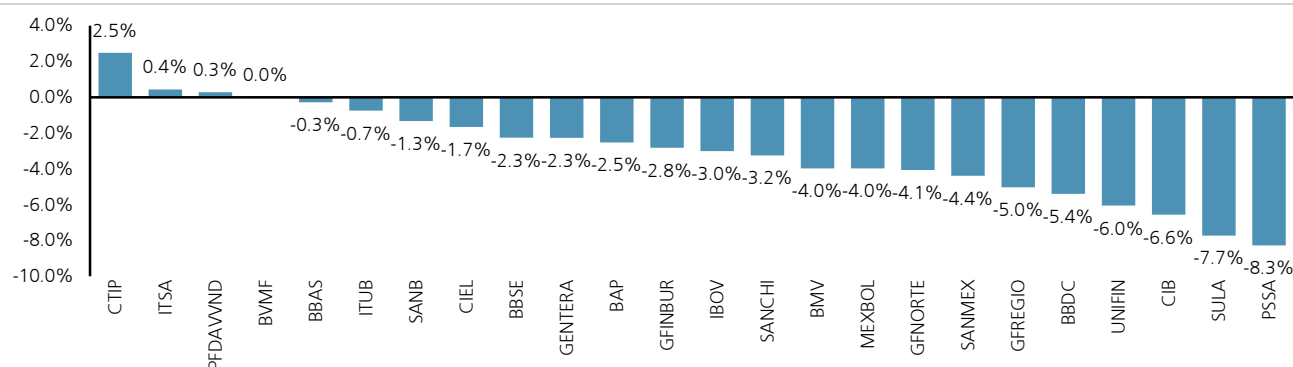
- Chile CPI decreased to 3.9%yoy (flat mom) in November, from 4.0% yoy (0.4% mom) in October.
- Chile GDP increased 1.5%yoy (flat mom) in October yoy vs 2.7%yoy (1.1%mom) in September.
- Colombia GDP increased 3.2% yoy, 1.2%qoq in 3Q15

Stock performance

Last week performance (03/12-10/12) – USD

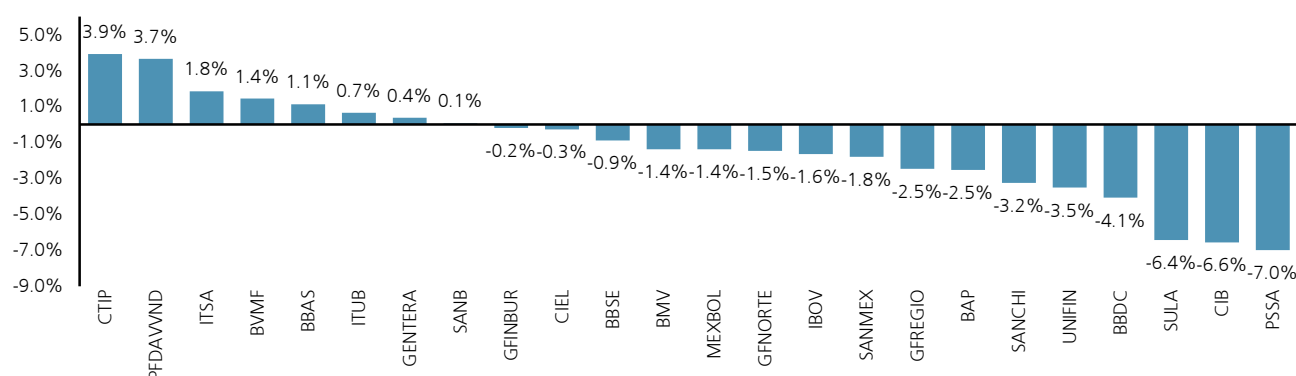
- Best: Cetip up +2.5%
- Worst: Porto Seguro down -8.3%

Figure 10: Weekly share price performance (03/12-10/12) – USD



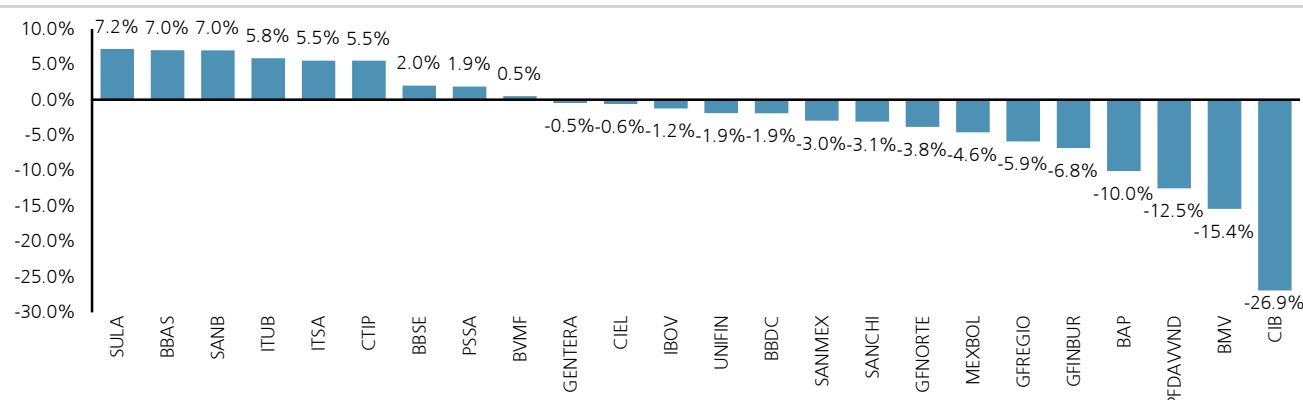
Source: Bloomberg and UBS

Figure 11: Weekly share price performance (03/12-10/12) – local currency



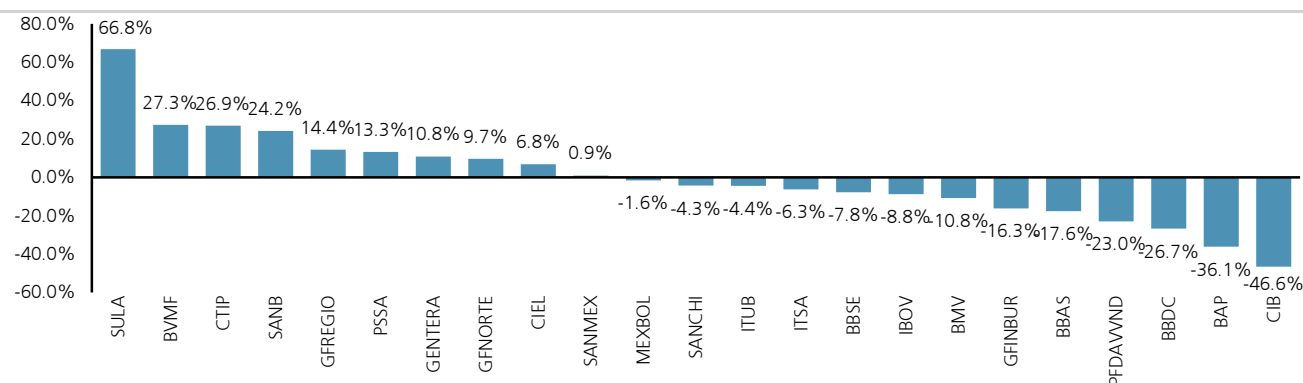
Source: Bloomberg and UBS

Figure 12: Monthly share price performance – local currency



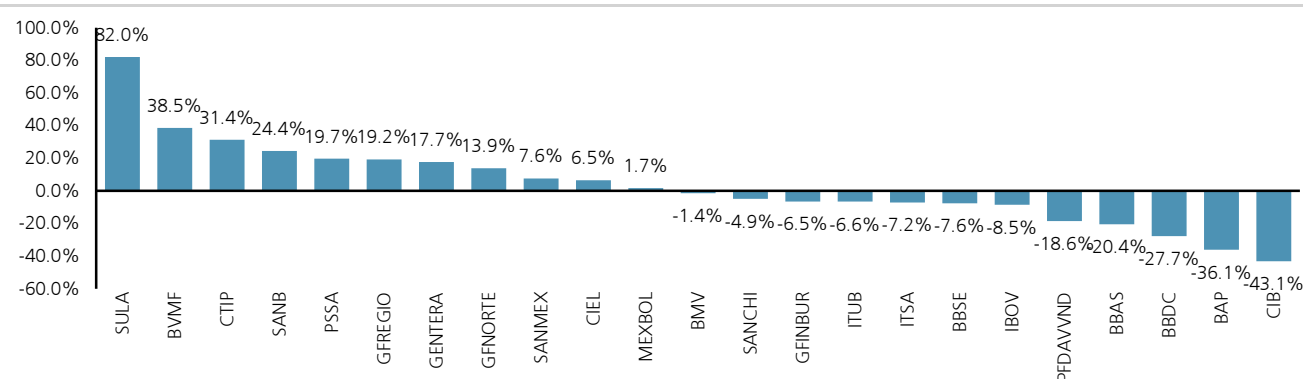
Source: Bloomberg and UBS

Figure 13: YTD share price performance – local currency



Source: Bloomberg and UBS

Figure 14: L12M share price performance – local currency



Source: Bloomberg and UBS

Liquidity Watch

Figure 15: 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	186	69.4	129.0	0.7	0.7	0.6	0.5%
Banco Bradesco	BBDC4 BZ	Buy	27,818	61.6	17,144.3	85.1	80.9	78.6	0.5%
Banco do Brasil	BBAS3 BZ	Neutral (CBE)	13,533	30.4	4,108.6	49.3	38.2	39.4	1.0%
Banco Pine	PINE4 BZ	Not Rated	57	55.2	31.4	0.0	0.0	0.0	0.1%
Daycoval	DAYC4 BR	Not Rated	478	53.6	256.5	0.1	0.2	0.1	0.0%
Itau Unibanco	ITUB4 BZ	Buy	45,973	53.8	24,747.3	144.4	130.9	133.0	0.5%
Itaúsa	ITSA4 BZ	Buy	13,513	65.5	8,847.0	43.4	47.9	48.6	0.5%
Pan Americano	BPAN4 BZ	Not Rated	98	57.1	56.1	0.5	0.1	0.1	0.2%
Santander Brasil	SANB4 BZ	Neutral	15,466	24.2	3,735.0	8.5	4.5	4.5	0.1%
BTG Pactual	BBTG11 BZ	Not Rated	2,803	100.0	2,802.7	21.9	13.0	15.7	0.6%
Banrisul	BRSR6 BZ	Not Rated	608	87.0	529.2	2.6	3.3	3.2	0.6%
BM&F Bovespa	BVMF3 BZ	Neutral	5,967	92.4	5,511.4	35.5	35.7	35.9	0.7%
Cetip	CTIP3 BZ	Sell	2,625	87.7	2,301.9	23.8	18.4	16.8	0.7%
Cielo	CIEL3 BZ	Buy	18,003	42.5	7,649.3	43.5	46.3	49.8	0.7%
BB Seguridade	BBSE3 BZ	Buy	14,719	33.8	4,975.2	33.1	36.5	37.6	0.8%
Porto Seguro	PSSA3 BZ	Neutral	2,800	29.5	825.5	5.1	5.2	5.8	0.7%
SulAmerica	SULA11 BZ	Sell	1,887	70.6	1,333.1	8.0	6.7	5.5	0.4%
Brazil Average						72.2	67.2	68.1	0.6%
Banorte	GFNORTEO MM	Buy	14,270	81.4	11,621.6	25.2	28.8	29.3	0.3%
Gentera	GENTERA* MM	Buy	3,040	64.2	1,951.9	5.6	5.0	5.0	0.3%
Bolsa Mexicana	BOLSAA MM	Neutral	790	60.0	474.1	2.7	2.5	2.4	0.5%
First Cash Financial	FCFS US	Not Rated	1,188	96.9	1,151.6	9.2	7.1	7.8	0.7%
Santander Mexico	SANMEXB MM	Buy	12,048	24.9	2,999.9	7.4	7.5	6.8	0.2%
Banregio	GFREGIO MM	Buy	1,595	25.5	406.7	2.3	2.6	2.6	0.7%
Inbursa	GFINBURO MM	Buy	12,232	34.5	4,218.9	5.6	6.7	6.1	0.1%
Findep	FINDEP* MM	Not Rated	136	27.3	37.0	0.0	0.0	0.0	0.0%
Unifin	UNIFINA MM	Buy	1,061	36.5	387.1	3.1	2.1	2.2	0.6%
Mexico Average						12.0	13.3	13.1	0.3%
Banco de Bogota	BOGOTA CB	Not Rated	5,497	17.2	947.0	0.1	0.2	0.2	0.0%
Bancolombia	PFBICOLO CB	Sell (UR)	6,007	54.4	3,267.6	3.1	3.8	3.3	0.1%
Davivienda	PFDVVND CB	Buy	2,860	23.0	657.8	1.8	2.6	1.8	0.3%
AFP Provida	PROVIDA CI	Not Rated	1,245	n.a.	n.a.	0.0	0.0	0.0	n.a.
Banco de Chile	CHILE CI	Not Rated	9,493	18.9	1,794.1	1.5	1.2	1.1	0.1%
BCI	BCI CI	Not Rated	4,043	29.2	1,180.5	1.4	1.3	1.5	0.1%
Corpbanca	BCA US	Not Rated	2,426	50.1	1,215.8	1.6	2.4	2.8	0.2%
Credicorp	BAP US	Buy	8,049	100.0	8,048.6	9.1	11.4	10.9	0.1%
Santander Chile	BCA US	Neutral	8,438	31.1	2,626.7	10.3	6.8	7.6	0.3%
Andeans Average						4.3	4.2	4.2	0.1%

Source: Bloomberg and UBS. Price as of December 10th.

Events Calendar

Figure 16: LatAm Financials events in the next four weeks

Monday, December 14	Tuesday, December 15	Wednesday, December 16	Thursday, December 17	Friday, December 18
	Peru unemployment rate Peru economic activity Colombia GDP		Brazil unemployment rate Brazil consumer credit delinquency Chile overnight rate Mexico overnight rate	Brazil inflation rate (IPCA) Colombia overnight rate
Monday, December 21	Tuesday, December 22	Wednesday, December 23	Thursday, December 24	Friday, December 25
Brazil economic activity		Brazil credit data	Mexico unemployment rate	
Monday, December 28	Tuesday, December 29	Wednesday, December 30	Thursday, December 31	Friday, January 01
	Brazil inflation rate (IGPM)	Chile unemployment rate Colombia unemployment rate		Peru CPI
Monday, January 04	Tuesday, January 05	Wednesday, January 06	Thursday, January 07	Friday, January 08
				Brazil inflation rate (IPCA)

Source: Bloomberg, UBS

LatAm Financials Valuation Comps

Figure 17: 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 (%)		2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	12m forward (%)
Banco do Brasil	BBAS3.SA	Neutral (CBE)	18.0	20.0	11.1	13,533	4.1	4.2	4.4	4.3	0.6	0.6	14.8	14.2	9.4
Bradesco	BBD4.SA	Buy	21.0	30.8	46.7	27,818	3.5	3.6	6.0	5.8	1.2	1.1	20.8	19.1	6.0
Itaú Unibanco	ITUB4.SA	Buy	28.8	38.0	31.9	45,973	4.0	4.1	7.3	7.0	1.6	1.4	23.7	21.6	5.0
Santander Brasil	SANB11.SA	Neutral	15.5	16.3	5.1	15,466	1.4	1.6	10.8	9.7	1.0	1.0	9.4	10.2	6.2
BTG Pactual ⁽¹⁾	BBTG11.SA	Not Rated	12.1	n.a.	n.a.	2,803	4.3	4.8	6.5	5.8	1.2	1.0	n.a.	19.2	-
Banrisul ⁽¹⁾	BRSR6.SA	Not Rated	5.7	n.a.	n.a.	608.4	1.8	1.9	3.5	3.4	0.4	0.4	n.a.	12.8	-
Brazilian Banks						106,201	3.5	3.6	7.0	6.7	1.3	1.1	19.0	18.2	5.8
Genera	GENTERA.MX	Buy	31.7	34.0	7.2	3,040	2.0	2.3	16.2	13.9	3.8	3.1	23.7	22.3	1.1
Banorte	GFNORTEO.MX	Buy	88.5	105.6	19.3	14,270	6.2	7.3	14.3	12.1	1.8	1.6	13.3	14.0	1.4
Inbursa	GFINBURO.MX	Buy	31.6	47.0	48.9	12,232	1.8	2.3	17.8	13.6	2.0	1.8	11.6	13.7	1.9
Santander Mexico	SANMEXB.MX	Buy	30.6	35.6	16.4	12,048	2.1	2.4	14.9	12.9	1.8	1.7	12.8	13.8	3.4
Banregio	GFREGIOO.MX	Buy	83.7	102.0	21.9	1,595	5.3	6.0	15.7	14.1	2.6	2.3	17.4	17.4	0.0
Unifin	UNIFINA.MX	Buy	51.7	62.0	19.9	1,061	2.3	3.1	22.1	16.5	4.4	3.7	29.0	24.1	1.5
Mexican Banks						44,246	3.4	4.1	15.8	13.0	2.1	1.9	13.9	14.8	2.0
Bancolombia	CIB.N	Sell (UR)	25.0	30.8	23.3	6,007	3.8	4.0	6.5	6.3	0.9	0.9	13.3	12.6	5.0
Davienda	DVL.p.CN	Buy	20,900	30,000	43.5	2,860	3,064	3,102	6.8	6.7	1.1	1.0	16.9	15.2	0.0
Credicorp	BAP.N	Buy	100.9	166.0	64.5	8,049	12.3	13.5	8.2	7.5	1.7	1.5	20.6	19.7	11.3
Banco de Chile ⁽¹⁾	CHLSN	Not Rated	70.7	n.a.	n.a.	9,493	6.0	6.3	12.4	11.7	2.5	2.4	20.9	21.7	4.8
Santander Chile	BSAC.K	Neutral	17.9	21.3	18.9	8,438	1.6	1.9	11.3	9.7	2.1	1.9	17.8	19.1	0.0
Andean Banks						34,846	257.0	260.6	9.7	8.9	1.8	1.7	18.4	18.5	4.8
Europe					11.8	1,058,780			11.8	10.8	0.9	0.9	8.7	9.0	4.2
EMEA					12.6	275,051			10.4	8.6	1.1	1.0	12.3	14.2	3.1
Asia (ex-Japan)					7.0	1,660,678			7.7	7.7	1.0	0.9	15.0	13.9	4.3
Latin America					34.8	169,743			7.9	7.4	1.4	1.3	19.0	18.2	3.8
Developed					11.7	2,615,874			11.4	10.7	1.0	0.9	10.2	10.2	3.5
GEM					11.3	2,105,473			8.0	7.8	1.1	1.0	15.1	14.5	4.0
Global Average						4,721,347			10.1	9.7	1.0	0.9	11.6	11.4	3.6
* FCFS is listed on the Nasdaq and derives more than 50% of its revenues from Mexico.															

* FCFs is listed on the Nasdaq and derives more than 50% of its revenues from Mexico.

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of December 10th.

Figure 18: 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	
							2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Cielo	CIEL3.SA	Buy	36.4	50.0	37.4	18,003	1.9	2.1	19.6	17.5	10.3	7.3	63.9	48.8	11.4	9.5	1.5	1.8
Average Brazilian Acquirers							1.9	2.1	19.6	17.5	10.3	7.3	63.9	48.8	11.4	9.5	1.5	1.8
VISA(1)	V.N	Not Rated	78.1	n.a.	n.a.	152,443	2.6	3.0	29.2	25.5	6.4	5.9	20.8	24.4	17.0	16.5	0.6	0.6
American Express	AXP.N	Sell	70.1	67.0	-4.4	74,317	5.4	5.4	13.2	13.1	3.4	3.3	25.9	25.0	-	-	1.6	1.7
Mastercard(1)	MA.N	Not Rated	97.6	n.a.	n.a.	107,393	3.4	4.0	29.0	24.7	16.5	13.6	60.8	62.1	17.9	16.3	0.6	0.6
US Card Associations							3.5	3.9	25.6	22.5	9.0	7.8	34.8	36.6	17.4	16.4	0.8	0.8
Global Payments(1)	GPN.N	Not Rated	71.5	n.a.	n.a.	9,280	5.9	6.6	22.6	20.2	9.3	9.1	35.9	31.0	15.1	14.2	0.1	0.1
Heartland Payment(1)	HPY.N	Not Rated	84.8	n.a.	n.a.	2,900	2.9	3.3	23.8	20.7	7.8	6.2	33.4	28.7	13.7	13.1	0.5	0.5
US Merchant Acquirers							5.2	5.8	22.9	20.3	8.9	8.4	35.3	30.4	14.8	13.9	0.2	0.2
Western Union(1)	WU.N	Not Rated	18.9	n.a.	n.a.	10,184	1.6	1.7	11.9	11.4	6.8	5.5	63.4	55.7	8.6	8.5	2.8	2.8
Euronet Worldwide Inc(1)	EEFT.US	Not Rated	18.7	n.a.	n.a.	1,086	3.2	3.8	24.9	21.1	5.3	n.a.	17.9	18.3	12.0	11.8	n.a.	n.a.
Other Payment Providers							1.8	1.9	13.2	12.4	6.8	5.5	63.4	55.7	8.6	8.5	2.8	2.8
BM&F Bovespa	BVMF3.SA	Neutral	12.0	13.0	8.6	5,967	1.6	0.7	12.2	11.5	1.1	1.1	9.2	9.6	9.0	8.0	4.3	5.5
Bolsa Mexicana	BOLSAA.MX	Neutral	22.9	29.0	26.5	790	1.4	1.5	16.6	14.9	2.4	2.3	14.9	16.0	9.2	8.2	4.4	5.1
CETIP	CTIP3.SA	Sell	39.0	34.0	(12.8)	2,625	1.9	2.0	16.7	17.4	6.1	5.4	35.8	33.2	13.5	11.2	4.6	3.6
Latam exchanges							1.7	1.2	13.9	13.4	2.6	2.4	17.1	16.7	10.3	8.9	4.4	5.0
Hong Kong E&C	0388.HK	Sell	194.2	175.0	(9.9)	30,282	6.5	5.4	29.8	35.8	7.9	7.8	30.5	21.8	24.2	26.3	3.0	2.5
Bursa Malaysia	BMYS.KL	Buy	8.3	9.8	18.1	1,030	0.4	0.4	22.7	20.3	5.9	5.8	25.9	28.6	15.7	13.7	4.2	4.7
Singapore Exc.	SGXL.SI	Sell	7.5	7.1	(5.0)	5,699	0.3	0.3	23.5	25.1	8.4	8.2	36.7	32.8	16.3	16.5	3.7	3.6
Asian exchanges							5.4	4.5	28.7	33.8	7.9	7.8	31.3	23.7	22.8	24.4	3.2	2.7
Porto Seguro	PSSA3.SA	Neutral	33.0	36.0	9.1	2,800	3.2	3.3	10.5	9.9	1.7	1.6	18.9	18.9	-	-	5.7	6.0
SulAmerica	SULA11.SA	Sell	21.1	18.8	(10.9)	1,887	2.2	2.2	9.8	9.6	1.6	1.5	18.3	16.2	-	-	4.3	4.2
BB Seguridade	BBSE3.SA	Buy	28.1	37.0	31.9	14,719	2.0	2.2	14.1	13.0	6.0	5.4	46.3	43.7	-	-	6.1	6.1
Brazilian insurance companies							2.2	2.3	13.1	12.2	5.0	4.5	39.6	37.5			5.8	5.9
AIA Group	1299.HK	Buy	46.6	56.5	21.2	72,416	0.3	0.4	18.5	16.7	2.3	2.1	13.0	13.0	-	-	1.2	1.3
China Life Insurance	2628.HK	Buy	24.4	36.7	50.2	88,985	1.4	1.7	13.8	12.2	1.9	1.7	13.5	14.3	-	-	2.5	2.9
Ping An Insurance (Group)	2318.HK	Buy	41.0	59.1	44.4	97,446	2.9	3.4	11.3	10.2	2.0	1.7	19.2	17.4	-	-	1.6	1.8
Asian insurance							1.7	1.9	14.2	12.7	2.1	1.8	15.5	15.1			1.8	2.0

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of December 10th.

Figure 19: Financials latest published reports

Date	Subject	Title
11-Dec-15	LatAm Exchanges Tracker	LatAm Exchanges Tracker - November 2015 "Weak derivatives in November" De Mariz
9-Dec-15	GEM Banks Outlook	GEM Banks Outlook 2016 "The cycle bites" Finch
6-Dec-15	Global Banks Outlook 2016	Global Banks Outlook 2016 "When the tide goes out" Finch
6-Dec-15	LatAm Financials Insights	LatAm Financials Insights "UBS GEM conference: 5 things we learnt on LatAm ..."
3-Dec-15	Mexico Credit Tracker	Mexico Credit Tracker - October 2015 "Credit growth dips; asset quality healthy"
1-Dec-15	Unifin	Unifin "Mexican SME Finance: superior returns, but what is the fair premium?"
29-Nov-15	LatAm Financials Insights	LatAm Financials Insights "EM banks: why capital ratios maybe be understated?"
27-Nov-15	Brazil Credit Tracker	Brazil Credit Tracker (October 15) "Further signs of asset quality ..."
23-Nov-15	LatAm Financials Insights	LatAm Financials Insights "EM banks: Why look at price/pre-provisioning ..."
18-Nov-15	Banco Davivienda	Banco Davivienda "3Q15 small beat, healthy operations, abnormally low tax ..."
16-Nov-15	SulAmerica	SulAmerica "Downgrading to Sell on valuation; challenging outlook ahead" (Sell)
16-Nov-15	BM&F Bovespa	BM&F Bovespa "Tender offer on Cetip: scenario analysis suggests 9% EPS ..."
15-Nov-15	LatAm Financials Insights	LatAm Financials Insights "Is credit risk rising in Brazil?" Finch
12-Nov-15	BM&F Bovespa	BM&F Bovespa "3Q15 small miss on recurring basis; large one-off gain from ..."
12-Nov-15	Bancolombia	First Read: Bancolombia "3Q15 miss on lower margins and higher opex" (Sell)
12-Nov-15	Banco do Brasil	Banco do Brasil "3Q15 miss on higher provisions; credit risk rising" (Neutral)
10-Nov-15	Cielo	Cielo "Cielo Day: highlights on innovation and efficiency" (Buy) De Mariz
10-Nov-15	LatAm Exchanges Tracker	LatAm Exchanges Tracker - October 2015 "Better equities in October" De Mariz
10-Nov-15	BB Seguridade	BB Seguridade "3Q15 small beat on financial income, pension management fee ..."
8-Nov-15	LatAm Financials Insights	LatAm Financials Insights "Why EM banks' earnings power has been in decline?"
6-Nov-15	Credicorp	Key Call: Credicorp "3Q15 small beat on higher non-financial income; NPLs down" (Buy)
6-Nov-15	Cielo	Cielo "3Q15 in line: good diversification offsets weak cards" (Buy) De Mariz
6-Nov-15	Cetip	Cetip "3Q15: beat on strong top line" (Sell) De Mariz
4-Nov-15	Itausa	Itausa "Updating PT; higher upside vs Itau" (Buy) Finch
4-Nov-15	Itau Unibanco	Itau Unibanco "The calm before the storm" (Buy) Finch
4-Nov-15	Porto Seguro	Porto Seguro "3Q15 miss on higher combined ratio" (Neutral) Taddeo
3-Nov-15	BM&F Bovespa	BM&F Bovespa "Initial merger talks with Cetip confirmed: what ..."
3-Nov-15	Itau Unibanco	Itau Unibanco "3Q15 beat on higher margin; NPL stable" (Buy) Finch
2-Nov-15	Mexico Credit Tracker	Mexico Credit Tracker - September 2015 "Loan growth accelerating" Finch
1-Nov-15	LatAm Financials Insights	LatAm Financials Insights "Who are the best managed banks in emerging markets?"
29-Oct-15	Santander Chile	Santander Chile "3Q15 in line, trends largely positive" (Neutral)
29-Oct-15	Bolsa Mexicana	Bolsa Mexicana "Threat of exchange competition in Mexico?" (Neutral) De Mariz
29-Oct-15	SulAmerica	SulAmerica "3Q15 positive trends" (Neutral) Taddeo
29-Oct-15	Santander Mexico	Santander Mexico "Turning the corner" (Buy) Finch
29-Oct-15	Santander Mexico	Santander Mexico "3Q15 in line; good operating trends" (Buy)
29-Oct-15	Santander Brasil	Santander Brasil "3Q15 strong beat on higher NII and lower opex" (Neutral)
29-Oct-15	Bradesco	Bradesco "3Q15 small beat; NPL under control" (Buy) Finch
28-Oct-15	Mexican Banks	Mexican Banks "Mexican SME Finance: an attractive niche market; Top pick: ..."
27-Oct-15	Inbursa	Key Call: Inbursa "Branch network: a radical transformation" (Buy) Finch
27-Oct-15	Bolsa Mexicana	Bolsa Mexicana "3Q15 in line: weak top line, good cost controls" (Neutral)
27-Oct-15	Inbursa	Key Call: Inbursa "3Q15 miss on higher provisions and lower revenues" (Buy) Finch

Please go to the Company Overview Page on Client Portal for the latest research report.

Source: UBS

Statement of Risk

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.	49%	33%
Neutral	FSR is between -6% and 6% of the MRA.	40%	26%
Sell	FSR is > 6% below the MRA.	12%	18%
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.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2015.

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.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term 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, 7}	DVL_p.CN	Buy	N/A	P20,900.00	10 Dec 2015
Banco do Brasil ^{5, 20, 22}	BBAS3.SA	Neutral (CBE)	N/A	R\$18.00	10 Dec 2015
Bancolombia ^{4, 5, 6, 7, 16b}	CIB.N	Sell (UR)	N/A	US\$24.98	10 Dec 2015
Banorte ^{5, 7}	GFNORTEO.MX	Buy	N/A	P88.51	10 Dec 2015
Banregio ^{16a}	GFREGIOO.MX	Buy	N/A	P83.65	10 Dec 2015
BB Seguridade	BBSE3.SA	Buy	N/A	R\$28.05	10 Dec 2015
BM&F Bovespa	BVMF3.SA	Neutral	N/A	R\$11.97	10 Dec 2015
Bolsa Mexicana ^{16a}	BOLSAA.MX	Neutral	N/A	P22.92	10 Dec 2015
Bradesco ^{5, 7, 16b}	BBDC4.SA	Buy	N/A	R\$21.00	10 Dec 2015
Cetip ⁵	CTIP3.SA	Sell	N/A	R\$38.97	10 Dec 2015
Cielo	CIEL3.SA	Buy	N/A	R\$36.40	10 Dec 2015
Credicorp ^{7, 16b}	BAP.N	Buy	N/A	US\$100.91	10 Dec 2015
Gentera ⁵	GENTERA.MX	Buy	N/A	P31.73	10 Dec 2015
Inbursa ^{3, 5, 7}	GFINBURO.MX	Buy	N/A	P31.56	10 Dec 2015
Itau Unibanco ^{5, 7, 16b}	ITUB4.SA	Buy	N/A	R\$28.80	10 Dec 2015
Itausa ⁷	ITSA4.SA	Buy	N/A	R\$7.62	10 Dec 2015
Porto Seguro ²	PSSA3.SA	Neutral	N/A	R\$33.01	10 Dec 2015
Santander Brasil ^{5, 7, 16b}	SANB11.SA	Neutral	N/A	R\$15.51	10 Dec 2015
Santander Chile ^{2, 4, 5, 7, 16b}	BSAC.K	Neutral	N/A	US\$17.91	10 Dec 2015
Santander Mexico ^{5, 16b}	SANMEXB.MX	Buy	N/A	P30.58	10 Dec 2015
SulAmerica	SULA11.SA	Sell	N/A	R\$21.11	10 Dec 2015
Unifin ^{2, 4, 6}	UNIFINA.MX	Buy	N/A	P51.71	10 Dec 2015

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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