

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Banco Safra S.A.'s (Safra) Issuer Default Ratings (IDRs) at 'BBB'. Fitch also affirmed the National Ratings of Safra Leasing S.A. - Arrendamento Mercantil (Safra Leasing) at 'AAA(bra)'. The Outlook for both ratings is Stable. A complete list of rating actions follows at the end of this press release.

KEY RATING DRIVERS

Safra's Long-Term Foreign and Local Currency IDRs are driven by the bank's Viability Rating (VR), which reflects its solid franchise and consistent performance through challenging economic cycles. The bank's conservative risk policies have proven Safra's ability to manage risks and preserve strong asset quality ratios while improving its liquidity and asset liability management. The ratings also reflect the preservation of its strong efficiency ratios and controlled margins resulting in a profitability level that adequately generates internal capital.

Safra's Support Rating of '4' and Support Rating Floor of 'B+' factor in its size within the Brazilian banking system, which is relatively concentrated in nature; Safra is the fifth largest private sector bank in the system.

Safra's long-term senior unsecured debt ratings are driven by Safra's IDR (given its unsecured nature) and rank equally to all other senior unsecured debt. Given that the majority of the notes are issued in Brazilian Real (BRL) while the settlement will be in U.S. Dollar (USD) a subscript 'emr' was added to the ratings of these issuances to reflect the embedded market risk of the exchange rate fluctuation between the BRL and the USD.

Safra's strong efficiency and relatively low cost funding have aided the bank to consistently post satisfactory profitability ratios, below the average of Brazilian large banks, but less volatile with an average ROAA of 1.37% over the last three years. The recent downward trend in interest rates combined with a shift to a lower risk lending mix and higher, but controlled, credit costs have recently eroded this ratio. As of March 31, 2014 the ROAA was 1.1%. However, Fitch expects that Safra's ROAA will remain above 1% in the medium term. This ratio is likely to be below the average of the larger Brazilian banks and other Latin American bank peers rated at the same rating level. In a lower net interest rate

environment, prudent loan growth and further income diversification will be needed to enhance profitability ratios and compensate for lower margins.

Safra posts above average asset quality ratios by focusing on a market that it knows well in conjunction with a well-articulated business plan that takes advantage of economic boom periods and allows for recovery when the environment deteriorates. Safra's good credit quality is evidenced by its March 31, 2014, 90 day past due loans to total loans ratio of 1.3%, one of the lowest in the banking system despite the continued volatility in the operating environment. Safra's Loan Loss Reserve coverage of loans past due over 90 days was a healthy 218%. In addition, the levels of charge-offs continue the trend of being low, partly due to the strength of its collections unit and its enhanced underwriting policies.

The bank continues to focus on ensuring a stable liquidity position through conservative asset liability management policies to mitigate gaps through hedging and funding diversification. Strategies include the sourcing of longer term funding which include the use of longer term instruments such as Letras Financeiras which saw a significant growth during the past two years ending with BRL13 billion at March 2014. Fitch expects that Safra will be able to maintain the improvements achieved in asset and liability maturity management in the medium term, which will help to mitigate the challenges of its mostly wholesale funding business model.

Safra continues to maintain satisfactory capital ratios. Fitch Core Capital ratio (FCC) has been stable at around 10%. Fitch expects that it will remain around that level in the future. At March 31, 2014 the Fitch core ratio was 10.1%. The bank nearly met the Central Bank regulatory minimum total capital requirement solely by means of its Tier I regulatory capital ratio of 10.3%. Fitch does not expect Safra to have any difficulty adjusting the upcoming implementation of Basel III according to the Brazilian Central Bank's timetable. Safra currently has a total Regulatory ratio of 12.8%, which could be higher at 13.9% if it recognized nearly BRL1.1 billion of tax credits. Differing from local peers, the bank maintains a highly conservative policy of non-recognition of these tax credits.

Safra Leasing's National ratings are equalized to those of its parent bank. According to Fitch criteria, this subsidiary is 'Core' to Safra by the means of its significant participation as a funding source of the consolidated activities. The leasing subsidiary is operationally aligned with the bank and shares in the reputational risk. Also, the ratings of its subordinated debt incorporate the support to be provided by Safra and are notched down once in view of the lower expected recovery of the securities due its contractual

subordination in case of a liquidation.

RATING SENSITIVITIES

Further upgrades to Safra's ratings may be limited considering that the company's current business model, despite increased diversification, still primarily relies on a wholesale funding structure and the maintenance of sufficient, albeit tight, capital ratios. If those structural characteristics are significantly altered, a rating review may occur. An unlikely deterioration of Safra's FCC capital ratio to below 9% or an operating return on assets ratio of below 1% for a sustained period of time, may also trigger a rating review. Also a change in the sovereign rating of Brazil may also trigger a rating review.

Fitch has affirmed the following ratings:

Banco Safra:

--Long-term foreign and local currency IDRs at 'BBB'; Outlook Stable;

--Short-term foreign and local currency IDRs at 'F2';

--Viability rating at 'bbb';

--Support rating at '4';

--Support rating floor at 'B+';

--National Long-term rating at 'AAA(bra)'; Outlook Stable;

--National short-term rating at 'F1+(bra)';

Market Linked Securities due 2016:

--Long-term Foreign Currency at 'BBBemr'.

Market Linked Securities due 2017:

--Long-term Foreign Currency rating at 'BBBemr'.

Senior notes due 2017:

--Long-term Foreign Currency rating at 'BBB'.

Safra Leasing S.A. Arrendamento Mercantil:

--National long-term rating at 'AAA(bra)'; Outlook Stable;

--National short-term rating at 'F1+(bra)'.

12th, 13th, 14th and 15th Subordinated Debenture Issues:

--National long-term rating at 'AA+(bra)'.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014);

--'Rating FI Subsidiaries and Holding Companies' (Aug. 10, 2012);

--'National Rating Scale Criteria' (Oct. 30, 2013);

--'Assessing and Rating Bank Subordinated and Hybrid Securities' (Jan. 31, 2014).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

Rating FI Subsidiaries and Holding Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679209

National Scale Ratings Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082

Assessing and Rating Bank Subordinated and Hybrid Securities Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732137

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=837696

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PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.