MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms B3's national scale debenture ratings

19 Dec 2019

NOTE: On December 20, 2019, the press release was corrected as follows: The methodology paragraph was changed to: “The methodology used in these ratings was Securities Industry Service Providers Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.” Revised release follows.

Sao Paulo, December 19, 2019 -- Moody's America Latina ("Moody's") has today affirmed B3 S.A. -- Brasil, Bolsa, Balcao's (B3) Ba1 global local currency senior unsecured debt rating and Aaa.br Brazilian national scale senior unsecured debt rating assigned to B3's outstanding local currency debentures

This action follows a related press release made by Moody's Investors Service (MIS) that it had affirmed all ratings assigned to B3 S.A. -- Brasil, Bolsa, Balcao ("Moody's affirms B3's ratings, stable outlook " https://www.moodys.com/research/Moodys-affirms-B3s-ratings-stable-outlook--PR_414510) published on 19 December 2019.

The following ratings assigned to B3 S.A. -- Brasil, Bolsa, Balcao were affirmed:

- Local currency senior unsecured debt rating of Ba1;

- Brazilian long-term national scale senior unsecured debt rating of Aaa.br

RATINGS RATIONALE

B3's global scale and national scale long term unsecured debenture rating of Ba1 and Aaa.br respectively, stem from B3's long term senior unsecured and issuer ratings of Ba1. B3 currently has BRL 1.2 billion of local currency debentures outstanding.

B3's long term senior unsecured and issuer ratings reflect Moody's unchanged assessment of the company's creditworthiness, which incorporates the benefits to creditors from its increasing earnings, high pretax margins and cash flow generation, which will continue to be strong over the next 12 -18 months, supported by the positive operating environment. Our assessment also takes into consideration B3's rising but manageable leverage and the company's increased dividend payout targets which will be maintained in 2020. B3's ratings are positioned one notch above Brazil's Ba2 sovereign rating, reflecting its strong linkages with the Brazilian sovereign.

Following on from 2018`s record year, B3 reported revenue growth of 23% and pre-tax income of BRL 3.1 billion (US$ 732 million) in the twelve months to 3Q19, an increase of over 50% versus a year earlier, illustrating its increased scale. Pre-tax margins were 49.3%, up by almost 840 basis points from a year earlier. Moody's expects B3 to continue to post strong financial results in 2020 as Brazil`s low interest rate environment will continue to shift investor risk appetite toward equity and other riskier investments, while capital market new issuances will continue to be strong, following on from 2019`s record levels of equity issuance. Moody`s also said that B3 offers services for which it has no competition, particularly in cash equities trading and post trading, and that its business model enables it to generate increased revenue during periods of market volatility, when interest rate and currency derivative volumes rise.

Moody's said it expects that B3's leverage, as measured by Moody's-adjusted debt/EBITDA, will be maintained at 1.5x, as aligned with B3's leverage target. B3's actual Moody's-adjusted debt leverage ratio was 1.3x as of 3Q19, but this is expected to worsen following incremental debt issuance. B3 has increased its dividend payout ratio to a range of 120%-150% of 2019 net income, including share repurchases and cash dividend payouts, versus its previous range of 70%-80% in 2018.

Despite relatively higher debt leverage and a higher new dividend payout ratio, B3's cash flow coverage ratio will continue to remain strong, defined as retained cash flow after dividends minus capex, as a percentage of debt. B3 reported cash flow coverage of 48.2 % in 2018 and as of 3Q19 the ratio was 43.2%. In addition, Moody`s expects B3`s interest coverage to improve, even as more debt is issued, because a combination of higher EBITDA and refinancing at lower interest rates will more than offset the effect of higher debt.

Moody's does not have any particular governance concerns for B3, and does not apply any corporate behavior adjustment in its standalone assessment of B3's creditworthiness.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The national scale debenture ratings are already at the highest level on the national scale for Brazil. A downgrade in B3`s global and national scale ratings could be driven by a deterioration in the company's financial profile, which, in turn, could be triggered by a decrease in its operating margin that substantially reduces the company's debt-service capacity and leads its leverage to increase significantly. Negative pressure on the ratings could also arise from a deterioration in the company's risk management capabilities and execution effectiveness. A decline in Brazil's creditworthiness could also result in B3's ratings being downgraded.

The methodology used in these ratings was Securities Industry Service Providers Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1174796 .

REGULATORY DISCLOSURES

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's information.

Information type used to prepare the rating is the following: financial data.

Sources of Public Information: Moody's considers public information from many third party sources as part of the rating process. These sources may include, but are not limited to, the list available in the link http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1188605 .

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Please see the ratings disclosure page on www.moodys.com.br for general disclosure on potential conflicts of interests.

Moody's America Latina Ltda. may have provided Other Permissible Service(s) to the rated entity or its related third parties within the 12 months preceding the credit rating action. Please go to the report "Ancillary or Other Permissible Services Provided to Entities Rated by Moody's America Latina Ltda." in the link http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1204145 for detailed information.

Entities rated by Moody's America Latina Ltda. and the rated entities' related parties may also receive products/services provided by parties related to Moody's America Latina Ltda. engaging in credit ratings activities within the 12 months preceding the credit rating action. Please go to the link http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1204144 for a list of entities receiving products/services from these related entities and the products/services received.

The date of the last Credit Rating Action was 24 April 2019.

Moody's ratings are constantly monitored, unless designated as point-in-time ratings in the initial press release. All Moody's ratings are reviewed at least once during every 12-month period.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.br.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see ratings tab on the issuer/entity page on www.moodys.com.br for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com.br for further information.

Please see Moody's Rating Symbols and Definitions on the Ratings Definitions page on www.moodys.com.br for further information on the meaning of each rating category and the definition of default and recovery.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com.br for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com.br for additional regulatory disclosures for each credit rating.

Farooq Khan
AVP - Analyst
Financial Institutions Group
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

M. Celina Vansetti-Hutchins
MD - Banking
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.