

Tear Sheet: BRB - Banco de Brasilia S.A.

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What's New: Banco de Brasilia's (BRB) net income for the first half of 2024 was 23 million, or an annualized return-on-equity (ROE) of 1.8%, according to Brazilian central bank data. The bank had rising loan loss provisions in the first half of 2024. While we expect improving profits in the second half of 2024, we still expect them to be lackluster. We predict an ROE of 3%-4% for the full year, considerably lower than peers and BRB's historic trend.

The bank's Basel ratio was 14.4% as of June 2024, while its tier I ratio slightly improved to 9.4%, from 9.1% three months earlier. Moreover, in July 2024, BRB announced a private capital raise of R\$294 million and the sale of 49.9% of one of its subsidiaries at premium. Yet, we expect capitalization ratios will remain constrained as we continue to predict weak profitability and aggressive capital management. We forecast BRB's RAC ratio to be 4%-5% in the next 12 months, below the industry average of 6%.

Why It Matters: BRB has the challenge of improving its capital position so that it can resume its expansion strategy. Significant portfolio expansion and lower profitability in later years have taken a toll on the bank's capitalization: BRB's tier I ratio had fallen to 9.2% in December 2023, down from 12%-15% between 2019 and 2021. The RAC ratio for December 2023 decreased to 4.1%, from 5%-6%, between 2019 and 2022.

We think capital will remain constrained. However, capital improvement could result from consistently better profitability ratios. Still, narrower margins and a hefty internal structure has been the main cause of BRB's profitability strain in recent years. Margins had been falling due to lower spreads in payroll-deductible loans and BRB's changing portfolio mix amid its expansion strategy. The bank's return on average equity (ROAE) for 2023 was about 8%, the lowest level since 2015. Between 2016 and 2020, BRB's ROAE averaged almost 22%.

Ratings Score Snapshot

Issuer Credit Rating

B/Stable/B

Brazil National Scale

brA+/Stable/brA-1

SACP: **b**



Support: **0**



Additional factors: **0**

Anchor	bb+	
Business position	Constrained	-2
Capital and earnings	Constrained	-1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
B/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Outlook

The stable outlook reflects our expectation that the bank will continue expanding its loan book, but at more moderate levels, while posting adequate asset quality metrics and positive bottom-line results. We also don't think that BRB will breach regulatory capital requirements, and that operating losses, like the one in the first quarter of 2024, will be temporary.

Downside scenario

We could lower the global and national scale ratings if BRB breaches minimum regulatory capital requirements, which could happen if profitability further weakens, absent new capital injections. We could also lower the ratings on both scales if asset quality metrics deteriorate. In addition, we could lower the national scale ratings if BRB's operating performance metrics erode further.

Upside scenario

We could raise the global and national scale ratings if capitalization levels improve sharply, with the RAC ratio remaining above 5%, and as long as the bank posts adequate asset quality metrics and positive operating results. Capital improvement could result from additional capital injections or from sustainably higher profitability, combined with low dividend payout and moderate credit growth.

Key Metrics

BRB - Banco de Brasilia S.A. Key ratios and forecasts				
	--Fiscal year ended Dec. 31 --			
(%)	2022a	2023a	2024f	2025f
Growth in operating revenue	-1.1	5.2	13.0-16.0	9.0-12.0
Growth in customer loans	44.2	-0.2	7.0-9.0	9.0-11.0
Growth in total assets	30.8	18.6	6.0-8.0	9.0-12.0
Net interest income/average earning assets (NIM)	7.3	6.8	6.75-7.25	7.0-7.5
Cost to income ratio	80.2	76.3	70.0-75.0	68.5-72.5
Return on average common equity	12.3	8.2	3.0-4.0	6.5-7.5
New loan loss provisions/average customer loans	1.7	2.2	3.5-4.0	3.0-3.5
Gross nonperforming assets/customer loans	2.1	2.6	3.25-3.75	3.25-3.75
Net charge-offs/average customer loans	1.6	1.4	1.5-2.0	2.0-2.5
Risk-adjusted capital ratio	5.3	4.1	4.0-5.0	4.0-5.0

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Key Statistics

Table 1

BRB - Banco de Brasília S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. R\$)	2023	2022	2021	2020	2019
Adjusted assets	48,919.1	41,277.9	31,539.9	25,191.0	16,896.0
Customer loans (gross)	31,221.2	31,297.8	21,709.1	16,178.1	11,001.4
Adjusted common equity	2,037.2	2,261.9	2,240.2	1,704.6	1,512.3
Operating revenues	3,415.5	3,247.1	3,284.6	3,015.1	2,641.8
Core earnings	235.2	166.0	106.9	486.3	inx

R\$--BRL-Brazilian real. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

BRB - Banco de Brasília S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Loan market share in country of domicile	0.6	0.6	0.5	0.4	0.3
Deposit market share in country of domicile	0.6	0.6	0.4	0.4	0.4
Return on average common equity	8.2	12.3	26.5	24.2	27.0

Table 3

BRB - Banco de Brasília S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Tier 1 capital ratio	9,5	9,1	14,1	13,2	14,6
S&P Global Ratings' RAC ratio before diversification	4,1	5,3	5,7	5,1	6,1
S&P Global Ratings' RAC ratio after diversification	3,6	4,5	4,7	4,4	5,1
Adjusted common equity/total adjusted capital	82,1	88,0	89,8	96,9	100,0
Preprovision operating income/average assets	1,8	1,8	2,8	4,6	4,8
Core earnings/average managed assets	0,5	0,5	0,4	2,3	2,8

Table 4

BRB - Banco de Brasília S.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Growth in customer loans	(0.2)	44.2	34.2	47.1	28.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	16.3	18.4	19.6	17.4	20.1
Total managed assets/adjusted common equity (x)	24.1	18.3	14.1	14.9	11.3
New loan loss provisions/average customer loans	2.2	1.7	3.6	1.7	1.4
Net charge-offs/average customer loans	1.4	1.6	0.6	0.0	0.9
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.1	3.2	1.6	1.7
Loan loss reserves/gross nonperforming assets	95.7	109.9	133.2	172.0	213.9

Table 5

BRB - Banco de Brasilia S.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Core deposits/funding base	90.7	89.5	82.9	77.5	88.4
Customer loans (net)/customer deposits	76.5	96.9	99.0	98.7	89.3
Long-term funding ratio	95.7	94.8	89.2	83.9	94.2
Stable funding ratio	122.2	102.7	98.7	102.8	110.5
Short-term wholesale funding/funding base	4.5	5.6	12.0	17.7	6.6
Broad liquid assets/short-term wholesale funding (x)	6.2	3.2	2.0	1.9	4.4
Broad liquid assets/total assets	25.2	15.1	19.6	26.7	23.1
Broad liquid assets/customer deposits	31.1	19.9	29.6	42.5	33.1
Net broad liquid assets/short-term customer deposits	34.0	18.2	22.2	31.0	40.4
Short-term wholesale funding/total wholesale funding	44.2	49.6	65.9	77.5	56.8

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of October 2, 2024)*

BRB - Banco de Brasilia S.A.

Issuer Credit Rating	B/Stable/B
<i>Brazil National Scale</i>	brA+/Stable/brA-1

Issuer Credit Ratings History

17-Jul-2024	B/Stable/B
26-Sep-2023	B+/Negative/B
20-Mar-2020	B+/Stable/B
17-Jul-2024 <i>Brazil National Scale</i>	brA+/Stable/brA-1
26-Sep-2023	brAA-/Negative/brA-1+
20-Mar-2020	brAA/Stable/brA-1+

Sovereign Rating

Brazil	BB/Stable/B
<i>Brazil National Scale</i>	brAAA/Stable/--

Ratings Detail (As Of October 2, 2024)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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