FitchRatings

Banks
Retail & Consumer Banks
Brazil

BRB – Banco de Brasilia SA

Key Rating Drivers

Support Driven Ratings: BRB – Banco de Brasilia SA's ratings are based on the ability and willingness of its parent, the Federal District Government (GDF) to provide timely support, if needed. Fitch Ratings believes the incentives for GDF to provide support to BRB stem from the bank's strategic importance as the local government's main financial agent. BRB has a meaningful market share in loans and deposits in the Federal District, its home town.

Timeliness Constrains Support: Fitch believes GDF is capable of supporting BRB but its willingness to provide such support has weakened. This is due to BRB's continued weak core capital position and GDF's lack of capital support for its banking subsidiary. A breach of the minimum required capitalization could pose a risk to the support-based ratings and lead Fitch to reassess BRB's importance to the state.

National Ratings: BRB's National Ratings are notched from Fitch's view of GDF's creditworthiness on the national scale. We believe the bank's National Rating better reflects its creditworthiness relative to its respective supporting entity.

VR Captures Standalone Profile: The Rating Watch Negative (RWN) on BRB's Viability Rating (VR) reflects our view on the near-term risks to the bank's core capital buffers and business model stabilization. The current VR is one notch below the implied score of 'b', as our view of the entity's capitalization and leverage has a high influence on the VR and is a weakest link in the bank's creditworthiness.

Capital Adequacy Concerns: BRB's common equity Tier 1 (CET1) ratio was 7.87% at end-2023, which Fitch considers a narrow buffer against the minimum requirement of 7.0%. While the Tier 1 and total regulatory capital ratios (9.47% and 14.68%, respectively) have adequate buffers over their minimum requirements, the tighter CET1 reduces its financial flexibility to respond to adverse shocks and grow businesses.

Capital Increase Underway: The bank's board of directors approved a capital increase plan of up to BRL1 billion on 14 May placed by its minority shareholders. Subject to execution risks, regulatory approvals and the disclosed final amount, the completion of the capital measures would support BRB's ability to more sustainably meet capitalization and growth requirements.

Execution Risks: Fitch believes BRB's business and earnings profile is pressured by uncertain core earnings prospects and capital constraints, making it difficult for the bank to increase business volumes and defend earnings against shocks in the medium term. Management continues to perform risk-weighted asset (RWA) optimization and portfolio sales to avoid breaching regulatory requirements. The bank still intends to raise an additional BRL1-BRL2 billion, once there are market opportunities.

Profitability Stabilization and Controlled Asset Quality: BRB's operating profit/RWAs ratio fell to 0.5% in 2023 from 0.6% in 2022. High loan provisions continue to weigh on the bank's profit generation capacity and we expect this to persist in the near future. Loans classified in the 'D-H' range were 4.3% of gross loans at end-2023 (end-2022: 3.4%), and Fitch expects asset-quality trends to remain linked with the bank's growth appetite for unsecured loans.

Adequate Funding and Liquidity: BRB's funding and liquidity profile has been stable, benefiting from a stable and diversified customer base. The bank's liquidity position is adequate against short-term maturities.

Fitch aims to resolve the RWNs in the next six months depending how the bank's capitalization and profitability positions evolve.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Local Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Shareholder Support Rating	b-
National Rating	
National Long-Term Rating	BBB+(bra)
National Short-Term Rating	F2(bra)
Sovereign Risk (Brazil)	
Long-Term Foreign-Currency IDR	BB
Long-Term Local-Currency IDR	BB
Country Ceiling	BB+
Outlooks	
Long-Term Foreign-Currency IDR	RWN
Short-Term Foreign-Currency IDR	RWN
Long-Term Local-Currency IDR	RWN
Short-Term Local-Currency IDR	RWN
Viability Rating	RWN
Shareholder Support Rating	RWN
National Long-Term Rating	RWN
National Short-Term Rating	RWN
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Downgrades BRB's IDRs to 'B-' and National Rating to 'BBB+(bra)'; Maintains Negative Watch (May 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs, SSR AND NATIONAL RATINGS

The ratings could be downgraded by multiple notches if Fitch believes BRB's strategic role and importance to the state have diminished, and if there is a capital breach and/or regulatory intervention.

VR

The VR is mainly sensitive to BRB's capitalization. It could be downgraded if capital optimization measures, including potential reductions in RWAs, were unsuccessful and insufficient to prevent a regulatory capital breach. The ratings would also come under pressure if its earnings prospects materially weaken and delay the improvement of capital generation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDR, SSR and NATIONAL RATINGS

There is limited scope for upward rating action given the RWNs. However, positive changes in Fitch's assessment of GDF's ability and willingness to provide support to BRB could affect the ratings.

VR

The VR could be removed from RWN if the bank managed to bring sustainable relief to its capital position without compromising structural profitability, for instance through fresh capital injections. If the bank successfully raises capital inorganically, there could potential upside to the VR.

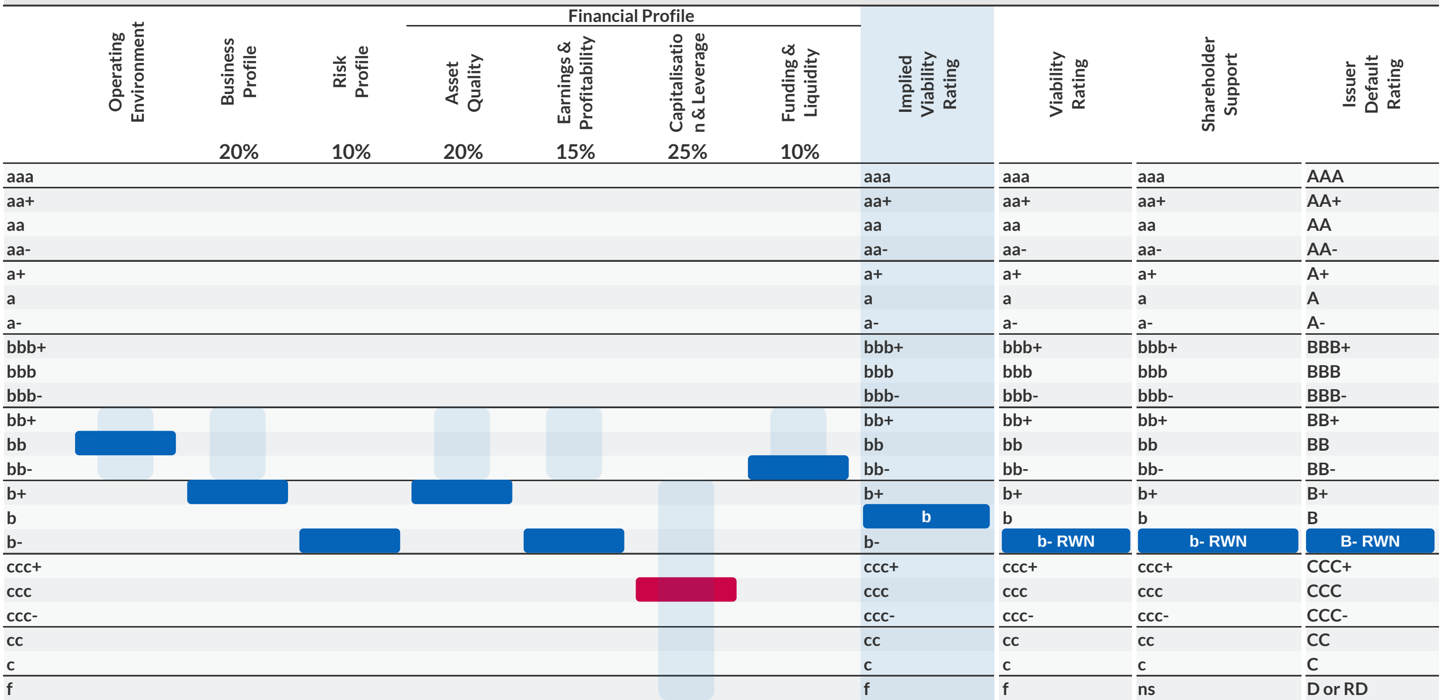
Over time, the ratings could be upgraded if there is a clear path to business model stabilization and sustainable core profitability as well as adequate capitalization and buffers.

Ratings Navigator

BRB - Banco de Brasilia SA

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason: Weakest Link - Capitalization & Leverage (negative).

The Business Profile score has been assigned below the implied score due to the following adjustment reason: Management and Governance (negative).

The Asset Quality score has been assigned below the implied score due to the following adjustment reason: Underwriting Standards and Growth (negative).

The Earnings & Profitability score has been assigned below the implied score due to the following adjustment reason: Historical and Future Metrics (negative).

Company Summary and Key Qualitative Factors

Business Profile

BRB is a medium-sized bank with total assets of BRL49.2 billion at end-2023. Although small in national terms (market-share of less than 1%), it is one of the five subnational commercial government-owned banks in Brazil and operates mainly in the Federal District, where it has adequate critical mass that supports client relationship to support business volumes growth and a stable funding franchise through granular deposits. The bank is the main financial agent of the GDF and is responsible for processing state employee salaries, benefit payments and tax collection. Paying the salaries of all state employees gives BRB competitive economic advantages in terms of client access through the right to provide payroll services, including payroll deductible lending, to the state's public employees.

BRB's business model is skewed towards consumer lending and is particularly strong in offering payroll lending, as well as residential mortgage loans (combining 70% of lending assets at 2023).The bank intends to become increasingly diversified and has undergone into an extensive restructuring agenda to support business volumes growth, which included the launch of a digital bank, geographical expansion outside its home town, as well as articulating several partnerships to lever fee businesses. While this has been supportive for incremental revenue generation, higher expansion costs, exacerbated by worse than expected economic performance in Brazil and higher interest rates, has been a drag to BRB core earnings generation over the past two years and negatively affects our assessment on its business profile.

BRB is listed on the Brazilian stock exchange as of 1993. GDF holds 71.90% of the bank's total shares, the social security institute of GDF's employees holds 16.52%, and the foundation of BRB employees another 9.50%, while the remaining 2.00% of shares were in free float.

Management has an adequate degree of depth and experience. Executive directors are nominated and elected by the board of directors, and, according to the bank's bylaws, at least half need to be existing employees prior to appointment. All management's appointments comply with the state-owned enterprise law, which establishes eligibility criteria for members of executive management, including requirements regarding academic and professional backgrounds.

Risk Profile

Over recent years, BRB had been posting higher-than-average portfolio growth, which included its digital expansion and growth of unsecured loans. In 2022, the loan portfolio growth was around 40%, from 34% growth in 2021. However, in 2023 the pace decreased and its loan book grew by 17%.

Underwriting standards are broadly in line with those of peers that have similar business models. The loan book's relatively high concentration in secured retail lending of 70% at end-2023 supports the bank's asset quality. In addition, about 90% of payroll deductible loans are for public-sector employees of GFD, which carry lower credit risk than those of private-sector employees. For investment/non-lending assets, guidelines and standards are low risk, both in composition and concentration.

BRB's market risk corresponded to a low 0.2% of RWAs at end-2023, as the bank does not actively engage in trading activities, and 99% of its portfolio consists of government securities. Operational risk represented 6.5% of RWAs. Available for sale securities are 98% of BRB's securities portfolio, followed by 2% of held to maturity securities. BRB uses value at risk, sensitivity analysis, stress tests and back-testing to monitor market risk.

Financial Profile

Asset Quality

Asset-quality ratios are adequate, reflecting a focus on secured lending. However, the bank's long-term trend was affected in recent years by the growth of its digital bank, which focuses on unsecured lending. Loans made by secured lending, mortgages and payroll lending still represented 70% of the portfolio at end-2023, which provides the bank with good asset quality. Impaired loans, classified as 'D-H', were 4.25% as of end-2023, from 3.5% at end-2022, and 3.7% at end-3Q23. NPLs rose to 2.25% of gross loans from 2.12% at end-2022 and 2% at end-3Q23.

Over the past year, the bank's coverage ratios had some worsening, with loan loss allowances/impaired loans at 59% at end-2023, below the peer average, from 68% at end-2022. In addition, unreserved impaired loans (impaired loans net of reserves) rose to 21% of equity from 13.7%. Fitch's assessment assumes asset quality will remain slightly under pressure in 2024 but should remain manageable, aided by the bank's proactive risk management.

Earnings and Profitability

In the past years, BRB's operating profitability has been affected by higher provisions and increasing costs from growth of the digital expansion strategy. The bank's operating profit/RWAs ratio was 0.5% at end-2023, from 0.6% at end-2022 and 1.4% in 2021. Return on average equity fell to 8.6% from 13.2%, with the previous year heavily affected by non-recurring events. In 2023, the bank posted some margin recovery – net interest margin at 6.5% from 6.1% – and has also focused on cost-efficiency measures, with non-interest expenses/revenue reaching 82% from 89%.

A better revenue stream is expected, coming from new and existing agreements in insurance, brokerage, investments and credit card. However, loan provisioning should still impact BRB's profits, despite the bank's efforts to broaden its revenues. We do not see BRB profitability materially improving over the medium-term, and, in the agency's view, BRB's earnings profile is sensitive to execution risks.

Capital and Leverage

Over recent years, BRB reported deterioration in capitalization metrics, due to balance-sheet expansion, weaker internal capital generation and high dividend payouts. However, its CET1 ratio was 7.87% at end-2023, close to the regulatory minimum of 7.0%, but up from 7.8% at end-2022. The bank reported Tier 1 and regulatory capital ratios of 9.47% and 14.68%, respectively (9.1% and 14.8%).

In our view, capitalization levels limit the bank's capacity to sustain its growth trajectory and also reduce its capacity to absorb negative events. Management continues to prioritize remediation action through RWA optimization, asset sales and operational agreements with some affiliates.

BRB's management is structuring a capital injection with its private shareholders, that should happen during 2024. In Fitch's view, this could help to stabilize pressure on its earnings and capitalization in the near term, and appears to be the most viable way to provide the bank with greater capital management flexibility.

The bank also plans to execute a follow-on, but that depends on market conditions and has been perceived as less viable. An increase in BRB group's risk appetite, including an acceleration of its growth strategy in unsecured lending without a commensurate increase in risk buffers, could further pressure the bank's capitalization and leverage.

Funding and Liquidity

BRB's funding structure benefits from a stable and diversified customer base. The bank funds its loan book through low-cost retail deposits, which made up 24% of total deposits at end-2023. This was followed by deposits from GFD (8%), judicial deposits (42%) and corporates/institutions (17%). The remaining comes from other public and financial institutions.

The bank's total funding reached BRL44. billion at end-2023, up 23.0% yoy, driven by agribusiness/mortgage letters of credit growth of 45% and by judicial deposit growth of 40%. Customer deposits made up around 72% of total funding at December 2023, underpinning a loans/customer deposits ratio of 97%

The bank has adequate liquidity buffers, with liquid assets covering 23% of total funding, with sizable deposits as its main funding source and lack of structural refinancing wholesale funding needs. Liquid assets correspond to 20% of assets and 31% of deposits. Around 18% of BRB's total deposits mature in less than a year, and another 22% in one to three years. Fitch considers BRB's liquidity to be sound and adequate against short-term maturities.

Financials

Summary Financials

	December 31, 2023		December 31, 2022	December 31, 2021	December 31, 2020
	12 months (USDm)	12 months (BRLm)	12 months (BRLm)	12 months (BRLm)	12 months (BRLm)
Summary income statement					
Net interest and dividend income	545	2,678	2,062	1,871	1,829
Net fees and commissions	59	288	274	247	231
Other operating income	17	81	47	506	79
Total operating income	620	3,047	2,384	2,624	2,138
Operating costs	478	2,352	1,999	1,846	1,545
Pre-impairment operating profit	141	696	386	778	593
Loan and other impairment charges	115	566	242	531	24
Operating profit	26	129	143	247	570
Other non-operating items (net)	-6	-30	125	236	1
Tax	-22	-106	-38	-110	121
Net income	42	205	306	593	450
Other comprehensive income	45	221	35	81	-44
Fitch comprehensive income	87	426	341	674	406
Summary balance sheet					
Assets					
Gross loans	6,348	31,221	27,685	18,441	13,388
– Of which impaired	270	1,326	957	1,001	520
Loan loss allowances	159	784	652	808	351
Net loans	6,188	30,438	27,033	17,633	13,038
Interbank	1,132	5,568	3,046	2,852	2,571
Derivatives	—	—	—	—	—
Other securities and earning assets	1,872	9,209	6,831	7,284	7,058
Total earning assets	9,192	45,214	36,910	27,769	22,667
Cash and due from banks	38	189	266	162	220
Other assets	769	3,782	2,915	2,382	1,899
Total assets	10,000	49,185	40,091	30,312	24,786
Liabilities					
Customer deposits	6,529	32,111	26,948	18,223	16,085
Interbank and other short-term funding	395	1,945	1,743	2,288	1,335
Other long-term funding	2,089	10,275	7,389	5,216	3,591
Trading liabilities and derivatives	—	—	—	—	—
Total funding and derivatives	9,013	44,331	36,079	25,727	21,012
Other liabilities	462	2,272	1,784	2,221	1,797
Preference shares and hybrid capital	—	—	—	—	—
Total equity	525	2,582	2,228	2,365	1,978
Total liabilities and equity	10,000	49,185	40,091	30,312	24,786
Exchange rate		USD1 = BRL4.9186	USD1 = BRL5.1439	USD1 = BRL5.6904	USD1 = BRL5.1734

Source: Fitch Ratings, Fitch Solutions, BRB

Key Ratios

	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.5	0.6	1.4	4.2
Net interest income/average earning assets	6.5	6.1	7.4	10.3
Non-interest expense/gross revenue	82.2	89.6	90.4	78.5
Net income/average equity	8.6	13.3	27.4	24.2
Asset quality				
Impaired loans ratio	4.3	3.5	5.4	3.9
Growth in gross loans	12.8	50.1	37.7	50.5
Loan loss allowances/impaired loans	59.1	68.1	80.7	67.4
Loan impairment charges/average gross loans	1.9	1.1	3.4	0.2
Capitalisation				
Common equity Tier 1 ratio	7.9	7.8	–	–
Tangible common equity/tangible assets	4.4	4.7	5.7	5.8
Funding and liquidity				
Gross loans/customer deposits	97.2	102.7	101.2	83.2
Customer deposits/total non-equity funding	72.4	74.7	70.8	76.6

Source: Fitch Ratings, Fitch Solutions, BRB

Support Assessment

Shareholder Support	
Shareholder IDR	NR
Total Adjustments (notches)	
Shareholder Support Rating	b-
Shareholder ability to support	
Shareholder Rating	NR
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	1 Notch
Integration	1 Notch
Support record	2+ Notches
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Environmental, Social and Governance Considerations

FitchRatings **BRB - Banco de Brasilia SA**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

BRB - Banco de Brasilia SA has 1 ESG rating driver and 4 ESG potential rating drivers

- BRB - Banco de Brasilia SA has exposure to quality and frequency of financial reporting and auditing processes which, in combination with other factors, impacts the rating.
- BRB - Banco de Brasilia SA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- BRB - Banco de Brasilia SA has exposure to operational implementation of strategy but this has very low impact on the rating.
- BRB - Banco de Brasilia SA has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions but this has very low impact on the rating.
- BRB - Banco de Brasilia SA has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	1	issues	4
potential driver	4	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	4	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

BRB has an ESG Relevance Score of '4' for Financial Transparency due to problems in the presentation of financial statements in the past that raise concerns about their governance, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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