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CREDIT OPINION
29 June 2021

New Issue

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RATINGS

BRB-Banco de Brasilia S.A.

Domicile	Brasilia, Distrito Federal, Brazil
Long Term CRR	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Farooq Khan +55.11.3043.6087
AVP-Analyst
farooq.khan@moodys.com

Igor Melo +55.11.3043.6065
Associate Analyst
igor.melo@moodys.com

Marianna Waltz, CFA +55.11.3043.7309
MD-Corporate Finance
marianna.waltz@moodys.com

BRB-Banco de Brasilia S.A.

Credit analysis following rating assignment

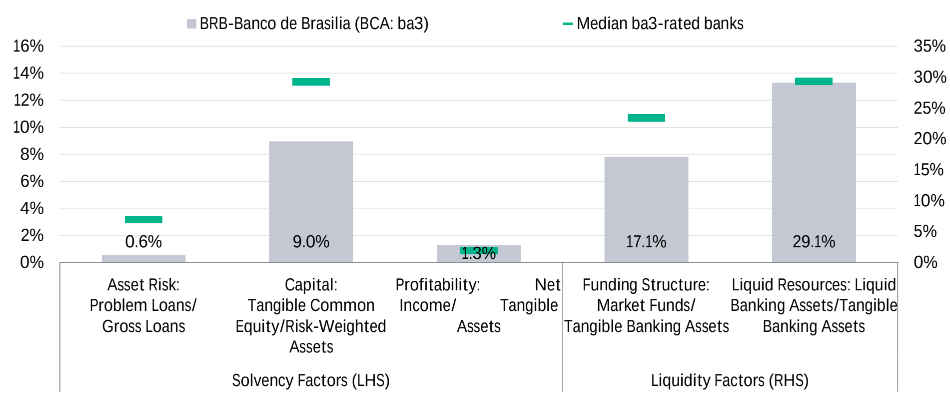
Summary

On 23 June, we assigned a ba3 Baseline Credit Assessment (BCA) to BRB-Banco de Brasilia S.A. (BRB). BRB's BCA reflects the bank's consistent profitability metrics and good asset quality, which benefits from the large participation of low-risk payroll loans in its loan book. In addition, the BCA also benefits from the bank's access to a low-cost granular retail deposit base, reflecting the bank's regional franchise in the Federal District (Distrito Federal, DF) area.

Conversely, the BCA is constrained by the intense loan growth the bank has reported in the last five quarters and by a business operation that is focused mostly in the DF area, which, in turn, results in earnings that are largely associated with the performance of the local economy. BRB's modest capitalization also limits the bank's ba3 BCA. As a government-owned bank, BRB is also subject to political influence since its CEO is appointed by the governor of the DF. In order to mitigate that risk, BRB has strengthened its corporate governance practices in the past five years.

We also assigned long- and short-term local- and foreign-currency deposit ratings of Ba3 and Not Prime to BRB. The bank's long-term deposit ratings do not benefit from government support uplift because of its modest share of deposits within the system.

Exhibit 1
Rating scorecard - Key financial ratios
As of March 2021



Source: Moody's Financial Metrics

Credit strengths

» High participation of low-risk payroll loans and rising volume of mortgage financing in loan portfolio mitigates credit risk

» Steady profitability metrics reflect well-established market position in the DF region and low-cost funding structure

» Funding profile supported by ample access to low-cost retail deposits originated from a client base comprised mainly of public employees and government-related entities

Credit challenges

» High business concentration in the DF region increases risk of earnings becoming more volatile because of competition or economic downturn in the region

» Strong loan growth, combined with a new loan holiday program, may weaken asset quality in the next 12 to 18 months

» Capital and liquidity metrics are modest compared with regional bank peers

» There is risk of political influence as the bank's CEO is appointed by the governor of the DF

Rating outlook

The stable outlook reflects our expectation that BRB's credit profile will remain consistent with its current ratings over the next 12-18 months.

Factors that could lead to an upgrade

» BRB's standalone BCA could benefit if the bank reports consistent improvement in its capital position, backed by asset quality metrics that remain in line with good levels reported in recent years

» BRB's BCA would also benefit from the bank reporting consistent and strong profitability ratios over the next 12 to 18 months

Factors that could lead to a downgrade

» BRB's standalone BCA could be lowered if its asset quality weakens in the next 12 months because of intense loan growth

» The BCA could also be lowered if BRB's profitability deteriorates because of a need for additional provision expenses, as new loans season over the next 12 to 18 months

» A decline in capitalization could also drive BRB's BCA down

Key Indicators

Exhibit 2

BRB-Banco de Brasilia S.A. (Consolidated Financials) [1]

	03-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (BRL Million)	28,240.5	25,374.4	17,021.2	15,225.0	14,121.7	23.8[4]
Total Assets (USD Million)	5,004.5	4,885.1	4,231.3	3,928.3	4,257.2	5.1[4]
Tangible Common Equity (BRL Million)	1,865.5	1,774.3	1,352.6	906.4	786.2	30.5[4]
Tangible Common Equity (USD Million)	330.6	341.6	336.3	233.9	237.0	10.8[4]
Problem Loans / Gross Loans (%)	0.5	0.6	0.5	0.6	0.9	0.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.9	10.2	10.0	7.8	7.7	8.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.8	4.2	3.3	3.9	6.7	4.4[5]
Net Interest Margin (%)	9.8	12.9	14.3	15.3	15.8	13.6[5]

PPI / Average RWA (%)	5.0	7.0	6.9	7.2	7.5	6.7[6]
Net Income / Tangible Assets (%)	1.3	1.8	2.4	1.6	1.8	1.8[5]
Cost / Income Ratio (%)	67.9	63.3	65.3	66.5	66.2	65.9[5]
Market Funds / Tangible Banking Assets (%)	15.4	17.1	6.0	5.7	4.2	9.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	32.4	29.1	26.9	30.3	22.8	28.3[5]
Gross Loans / Due to Customers (%)	92.6	101.6	92.7	85.8	96.6	93.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Founded in 1964, BRB-Banco de Brasilia S.A. (BRB) is controlled by the government of the Federal District, in Brasilia, which holds 80.3% of the bank's total shares, while Instituto de Previdência dos Servidores do Distrito Federal (IPREV-DF), the pension fund of public employees from the government of the DF, holds 16.5% and the remaining 3.2% are free float. Although the bank also has operations in seven other different Brazilian states, its presence is concentrated in the DF region, with a focus on providing banking services to the federal public servants as well as to local companies.

As of end-March, BRB had a national market share of 0.2% of assets, 0.4% loans and 0.5% deposits.

Detailed credit considerations

Asset quality benefits from large volume of low-risk payroll loans to public employees

We assign an Asset Risk score of ba2 to BRB, which takes into consideration the large participation of low-risk payroll loans and mortgage financing in the bank's loan portfolio. As of March, payroll loans accounted for 49% of total loans, followed by mortgage financing at 17%, consumer finance at 17% and credit cards at 5%. Credit operations with companies, mainly in the form of secured loans to small and midsized firms, represented just 11% of total loans as of the same date.

The ba2 score also reflects BRB's business concentration in the DF region, which constrains the bank's ability to diversify geographically the risks of its loan book. The strong loan growth that BRB reported in the past five quarters is also incorporated in the score for asset risk. In the last twelve months ended March 2021, BRB's loan book expanded 42%, with mortgage growing 144% and corporate loans 137% in the same period. Payroll loans grew 26% annually in the same period.

BRB's exposure to asset risk is lowered by a track record of low ratios of problem loans[1] to gross loans. In March, the ratio was 0.51%, slightly lower than 0.57% one year prior and well below the 2.17% average 90-day past due loan ratio in the Brazilian banking system. In addition, during the last four years, the bank's problem loan ratio has remained under 1%. Asset risk is also mitigated by the high volume of loan loss reserves the bank has created, representing 2.57% of gross loans and comfortably covering 509.68% of problem loans as of March.

The high granularity of BRB's loan book is also positive for asset quality. The 60 largest borrowers accounted for 63% of tangible common equity (TCE), while the largest credit exposure to an economic segment, i.e. construction, was 26% of TCE in Q1 2021.

In 2020, similar to several Brazilian banks, BRB granted loan deferrals of up to 180 days to support households and companies to alleviate short-term financial pressure caused by social distancing because of the coronavirus pandemic. In 2021, the bank renewed its support to the regional economy by launching a new program of loan payment deferrals or renegotiations, or both. As of March, loan deferrals represented around 11% of total loans, of which 90% were granted to households and 10% to companies.

We will monitor BRB's portfolio of loan payment deferrals and renegotiations closely as it evolves through the next three to four quarters, since a potential increase in delinquency would weaken the bank's asset quality metrics.

Capital buffers are adequate to absorb potential losses

BRB has a b2 score for Capital. The bank's capital ratio, measured as TCE to risk-weighted assets (RWA)[2], was 8.95% in March, down 44 basis points from a year earlier, because of strong loan growth and increase in volume of liquid assets, mostly in the form of government securities. Despite the relatively modest level of TCE/RWA ratio when compared with the ratio of peer banks, BRB reported good capital ratios on a regulatory basis. In March, the bank's Common Equity Tier 1 (CET1) ratio was 12.58% and total capital was 14.56%, both above regulatory minimums of 5.75% and 9.25%, respectively.

The bank's continued strategy to expand its loan book intensively will likely strain its capital ratios in the next three to four quarters. However, this strain will likely be counterbalanced by the bank's plan to increase the participation of listed shares to 30% from 3.2% through a follow-on process intended for this year.

BRB has a dividend policy to pay a minimum of 25% of its adjusted net income to a maximum of 40%. As of March, BRB paid dividends of about 30% of its net income.

Profitability has been resilient despite high level of loan loss provisions

We score BRB's Profitability as ba2, reflecting the bank's good profitability metrics, which benefits from the large share of revenue originated from low-risk lending operations and the bank's access to low-cost funding. As of March, BRB's net income to tangible assets ratio was 1.3%, down from 1.78% one year prior. At the same date, net interest income (NII) increased 15.21% year-over-year mostly because of a 15.1% rise in revenue from loan operations and a 15.08% drop in loan loss provisions. The increased NII was counterbalanced by an 8.76% increase in interest expenses and an increase of 19.46% in operating expenses. As a result, BRB's net income grew 8.99% in the period.

The Profitability score also reflects the bank's established presence in the DF region and its large client base of public servants. However, BRB's predominant focus on a geographic region may reduce its capacity to originate revenue relative to banks with a nationwide distribution footprint, as its performance remains highly correlated to a local economy. For the next 12 to 18 months, we expect BRB's profitability will face pressure from the heightened competition for loan origination in the bank's niche market and the persistence of above-trend credit costs.

BRB reported a net interest margin (NIM) of 9.77% in Q1 2021, although the ratio has declined gradually from 15.79% since December 2017, affected in part by the reduction in the benchmark policy rate. The heightened competition for payroll lending during the past 18 months and the large position of liquid assets also help explain the recent decline in BRB's NIM.

BRB has less flexibility to reduce operating expenses than privately-owned banks because of its status as a government-owned bank. Despite that, the bank has invested continuously in technology during the past two years to expand services through digital channels and improve efficiency. As of March, investment in technology increased 19% from a year earlier and represented almost one-third of total administrative expenses. BRB's cost to income ratio was 67.92% in March, compared with 63.46% one year prior.

Low reliance in market funds is positive for the bank's funding structure

As of March, BRB's total funding comprised mostly of time deposits, with 62.8% of total funding. Saving deposits were 10.8% of total funding and demand deposits were 5.1%. Individuals accounted for 28% of the total investors in time deposits, while government-related entities were 32%, steady and low-cost judicial deposits were 19% and companies represented 18%. The bank's funding structure was complemented by domestic bank notes (including subordinated bank notes) and on-lending.

BRB has reported low reliance on market funds, which accounted for 15.4% of tangible banking assets (TBA) in March, up from 10.4% a year earlier. The ba1 score for liquid resources reflects the bank's good access to core deposits and historically low use of market funds.

The rise in market funds in the twelve-month period up to March 2021 reflected the issuance of special deposits guaranteed by Brazil's deposit insurance fund (DPGE) and guaranteed bank notes (Letra Financeira Garantida), as a result of government measures to improve liquidity in the banking system during the pandemic. However, the bank's ratio of market funds to TBA still compares well to the Brazilian average ratio of 28.0% as of the same date.

Above-trend liquidity levels will likely decline with loan growth

We score BRB's liquidity as ba1, which incorporates the bank's consolidated access to core deposits, although the bank's liquidity position is lower when compared with that of other regional banks. In March, BRB's liquid banking assets were 32.4% of TBA, an increase from 24.5% one year prior. The rise in liquidity was also a result of government measures to support banks during the pandemic. Despite the recent rise, BRB's ratio was below the average ratio of 37.0% for all Brazilian rated banks in March.

BRB's rating is supported by Brazil's Moderate- Macro Profile

Brazil's Moderate- Macro Profile incorporates the large-scale and high diversification of the country's economy, despite its modest growth prospects. The Macro Profile also reflects Brazil's favorable credit conditions until the unexpected coronavirus pandemic and the still record-low level of interest rates. We expect a moderate growth in bank lending in 2021 and 2022, supported by economic activity, which, however, will depend on the path of recovery. Private consumption and retail sales have been recovering gradually after being severely affected by the pandemic in March 2020. However, labor and wage conditions will likely be the last to improve, which could affect demand for credit and banks' risk appetite in the next six to eight quarters.

Private banks are regaining market share as state-run banks focus on their respective policy mandates. Record-low interest rates and low inflation will lead to a gradual increase in job creation, improving borrowers' repayment capacity and leading to a stabilization in asset quality.

ESG considerations

BRB's exposure to environmental risks is low, consistent with our general assessment for the global banking sector. See our environmental risks heat map for further information.

Overall, we believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are also a social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries hurting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. See our social risks heat map for further information.

The rating assignment for BRB also incorporates the bank's governance as part of our environmental, social and governance (ESG) considerations. We expect BRB to maintain good corporate governance, deriving from improvements to governance practices implemented in the past five years that helps mitigate risks of political interference in the bank's operation. They include the strengthening of risk and operating committees and the adoption of an integrity program to enhance internal procedures.

Support and structural considerations

Notching considerations

In the absence of a bail-in resolution regime framework in Brazil, the ratings of subordinated debt, bank hybrids and contingent capital securities follow the additional notching guidelines, in accordance with our Banks rating methodology. In these cases, the approach takes into account other features specific to debt classes, resulting in additional notching from the Adjusted BCA of the issuer.

Government support

We believe there is a low likelihood of government support for BRB's ratings, which reflects the bank's small share of deposits and assets in Brazil's banking system.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BRB's CR Assessments are positioned at Ba2(cr)/Not Prime(cr)

The CR Assessment of Ba2(cr) is placed one notch above the Adjusted BCA of ba3 based on our view that senior obligations represented by the CR Assessment will be more likely preserved than senior unsecured debt to minimize losses, avoid disruption of critical functions and limit contagion. This CR Assessment reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations.

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

BRB's CRRs are positioned at Ba2/Not Prime

BRB's global local- and foreign-currency CRRs are positioned at Ba2 and Not Prime, one notch above the bank's Adjusted BCA, reflecting the lower probability of default of CRR liabilities and our expectation of a normal level of loss given default. The CRRs of Ba2 are positioned at Brazil's foreign currency ceiling for deposits and debt obligations.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 3

BRB-Banco de Brasilia S.A.

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.5%	a3	↔	ba2	Geographical concentration	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	8.9%	b2	↔	b3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.3%	baa3	↔	ba2	Expected trend		
Combined Solvency Score		ba1		b1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	17.1%	ba1	↔	ba1	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	29.1%	ba1	↔	ba1	Quality of liquid assets		
Combined Liquidity Score		ba1		ba1			
Financial Profile				ba3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Ba2			
BCA Scorecard-indicated Outcome - Range				ba2 - b1			
Assigned BCA				ba3			
Affiliate Support notching				0			
Adjusted BCA				ba3			

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
BRB-BANCO DE BRASILIA S.A.	
Outlook	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

Endnotes

1 We consider problem loans the loans overdue and rated between E and H under Brazilian Central Bank's resolution 2,682/99. According to this resolution, loans in Brazil are classified on a risk scale from AA to H with the corresponding minimum provisioning levels: AA - 0%, A - 0.5%, B - 1%, C - 3%, D - 10%, E - 30%, F - 50%, G - 70% and H - 100%.

2 Our preferred measure of capitalization, which deducts from capital the intangible assets and a significant portion of deferred tax assets that do not provide significant loss absorption, and we adjust the bank's RWA by applying a risk factor of 100% to its significant holdings of the Brazilian government securities, weighted 0% by local regulations.

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