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Fitch Affirms Banco da Amazonia Ratings at 'BB'; Outlook Stable

Fitch Ratings - São Paulo - 20 Mar 2024: Fitch Ratings has affirmed Banco da Amazonia SA's (BASA) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB'. The Rating Outlook is Stable. Fitch has also affirmed BASA's Long-Term National Rating at 'AAA(bra)'/Stable.

Key Rating Drivers

Government Support Drives Ratings: BASA's IDRs are driven by its Government Support Rating (GSR), are equalized with those of Brazil, reflecting a moderate probability of support from the Brazilian government. This considers Brazil's high propensity to support BASA, but its moderate ability to do so. The Brazilian government's high propensity to support the bank is based on BASA's important regional policy role and majority state ownership. The sovereign's ability to provide support is moderate as reflected in its 'BB' Long-Term IDRs.

BASA's 'AAA(bra)' Long-Term National Rating is based on potential support and reflects the bank's creditworthiness relative to other issuers in Brazil.

No Viability Rating: As is the case for development banks, Fitch does not assign BASA a Viability Rating (VR). By the agency's criteria, VRs are not assigned to policy banks whose operations are largely determined by their policy roles. BASA's business model is strongly influenced by its regional policy role.

Key Regional Policy Bank: BASA's is one of Brazil government's main regional policy banks that implements its development plans and countercyclical policies in the Northern Region of Brazil. BASA's purpose is to support and foster economic activities that contribute to the economic growth of the nine federal states of the Brazilian legal amazon region and promote economic and social development. As a result, the Brazilian government exerts influence over BASA's lending activity and operations.

The importance of the bank's policy role has not changed over political cycles, and we expect this to continue. Although there has not been any material change in the bank's corporate governance so far, Fitch will continue to monitor the potential for political interference from the federal government that could materially affect BASA's financial metrics.

Funds from Government Underpins Role: BASA's policy role is further reinforced by its status as the exclusive agent to manage several funds established by the federal government, including the Constitutional Fund of the North (FNO), the main financial instrument for the economic development of the northern region. FNO funds are BASA's bank's largest source funding and a major source of income for the entity.

As fund administrator, BASA receives a monthly fee based on the fund's equity in addition to a del-credere fee for assuming partial or full risks on operations carried-out with FNO resources. At end-2023, BASA gross extended loans were BRL50.9 billion, of which BRL24.1 billion were related to the risk sharing agreement with the fund, where BASA is remunerated for guaranteeing 50% of the credit risk. Management and del-credere fees amount to roughly half of the bank's operating income.

Strengthened business, financial profile: BASA is not profit-driven, but Fitch highlights the proactive strategic course taken in recent years to improve risk management, digital transformation and governance standards. These initiatives have led to tangible improvements in profitability, facilitating credit expansion and reinforcing the bank's key role in driving economic progress in Brazil's northern region. As part of its business transformation, BASA has also been seeking to establish long-term funding agreements with multilateral institutions and diversify its funding sources beyond FNO funds.

Strong Performance: The bank's operating profit/risk-weighted assets ratio reached 3.9% in 9M23 and materially improved relative to pre-pandemic years, reflecting primarily increased business volumes, high yields on government bonds and well-controlled expenses stemming from the implementation of cost efficiency measures.

Risk profile sensitive to policy role: Given its policy role, BASA's risk profile is more sensitive to economic downturns than that of local commercial banks. This is a consequence of the bank's role in financing emerging sectors and industries, as well as customer segments underserved by commercial banks, and the long-term nature of its lending. However, the bank's impaired loan ratio (DH loans) continues to decline from 11% at end-2021 and 7.6% at end-2022 to 6.0% in 2023, reflecting limited impaired loan formation, loan growth and write-offs.

Adequate capital buffers: BASA's regulatory capital ratios remain adequate, as evidenced by a common equity Tier 1 (CET1) ratio of 13% at end-2023 and despite strong balance sheet expansion, reflecting resilient internal capital generation and prudent dividend payouts. BASA's regulatory capital ratios remain adequate, as evidenced by a CET1 ratio of 13% at end-2023 and despite strong balance sheet expansion, reflecting resilient internal capital generation and prudent dividend pay-outs.

Stable Funding Profile: BASA's funding profile benefits from the ample and longer-term sources of federal constitutional funds with 64% of total funding at YE 2023 (the main one being FNO), underpinned by a fairly resilient and granular customer deposit base, in addition to BNDES on-lending funding.

Rating Sensitivities

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

BASA's Long-Term IDRs and GSR would be downgraded if Brazil's sovereign rating is downgraded, though this is not Fitch's base case given the Stable Outlook on Brazil's Long-Term IDRs.

BASA's ratings are also sensitive to a reduced propensity of the authorities to support the bank. This could be indicated by an adverse change in BASA's policy role or a material reduction in government ownership, which Fitch views as unlikely;

BASA's National Long-Term Rating is sensitive to a negative change in Fitch's opinion of the bank's creditworthiness relative to other Brazilian issuers.

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

An upgrade of the Long-Term IDRs would require a sovereign upgrade.

BASA's National Long-Term Rating is at the highest level on Fitch's Brazilian national rating scale and therefore cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

BASA's ratings are equalized with Brazil's sovereign rating.

ESG Considerations

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.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Banco da Amazonia S.A.	LT IDR	BB	Affirmed		BB
	ST IDR	B	Affirmed		B
	LC LT IDR	BB	Affirmed		BB
	LC ST IDR	B	Affirmed		B
	Natl LT	AAA(bra)	Affirmed		AAA(bra)
	Natl ST	F1+(bra)	Affirmed		F1+(bra)
	Government Support	bb	Affirmed		bb

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

National Scale Rating Criteria (pub.22 Dec 2020)

Additional Disclosures

Solicitation Status

Endorsement Status

Banco da Amazonia S.A.	EU Endorsed, UK Endorsed

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