



Rating Action: Moody's assigns first-time Ba2 deposit ratings to Banco da Amazônia; outlook stable

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New York, August 16, 2023 – Moody's Investors Service (Moody's) has today assigned Ba2 long-term and Not Prime short-term local and foreign currency deposit ratings to Banco da Amazônia S.A., as well as Ba2 long-term and Not Prime short-term counterparty risk ratings (CRR), in local and foreign currency. Concurrently, Moody's has also assigned baseline credit assessment (BCA) and adjusted BCA of ba3, as well as counterparty risk assessments (CR Assessment) of Ba2(cr) and Not Prime(cr), for long- and short-term, respectively. The outlook on the long-term deposit ratings is stable.

RATINGS RATIONALE

Banco da Amazônia's ba3 BCA reflects the bank's important regional franchise and broad footprint in the Amazon region, with operating as a financial agent and manager of the constitutionally mandated Fundo Constitucional de Financiamento do Norte (FNO), whose resources are used to promote economic and social development, particularly focused on the North states of Brazil. As such, the bank's ba3 BCA incorporates the recurring fee-income generation derived from the management of constitutional funds as well as the bank's adequate liquidity provided by the FNO.

The ba3 BCA also reflects challenges related to asset risk faced by Banco da Amazônia. The bank has a loan book with operations that show an intrinsic geographical, as well as sectorial concentration in agriculture and infrastructure, that accounted for 53% and 22% of total loans, respectively, in March 2023. In our view, the large share of loans to the agriculture sector exposes the bank to above-average physical climate risk. The acceleration of loan origination between 2019 and 2022 - 53% on a compound annual basis – also indicates a potential increment of risk taking amid a challenging operating conditions in Brazil in the period, that could translate into future pressures to asset quality. At the same time, Banco da Amazônia's development mandate exposes the bank to credit risks derived from the guarantees it provides to loans the bank split the risk with FNO, resulting in a sizable off-balance sheet credit risk it manages under the constitutional funds. These guarantees amounted to nearly 39% of the bank total credit risk, incorporating on- and off-balance sheet risks.

While the level of nonperforming loans as a percentage of total loans has remained low over the past years, the bank also reports a track record of a large volume of loan renegotiation, that accounted for 16.6% of gross loans in March 2023, an intrinsic characteristic of its operations. These risks are shielded by a high level of reserves for loan losses maintained by Banco da Amazonia that reached 3.3% of total loans and 244% of problem loans in March 2023.

Profitability is a key credit strength of Banco da Amazônia, benefiting from an steady stream of fee-based revenue that the bank receives from the national treasury to manage constitutional funds and from fees from assuming the credit risk of 3% to 6% of FNO's operations. Net income to tangible banking assets has averaged 2.6% for the past three years, above the 1.4% average of rated Brazilian banks in the same period. However, if off-balance sheet exposures are added to the asset base the same metric declines to 1.1%.

The ba3 BCA also reflects our assessment of the bank's adequate capitalization, supported by its strong capital replenishment capacity. Measured by Moody's ratio of tangible common equity to risk-weighted assets (TCE/RWA), the bank's capital ratio was 9.5% in March 2023, at the same level as of year-end 2022, following a BRL1.0 billion capital injection, and above 5.8% in December 2021. Because of the bank's strategy to expand the loan book at

double-digit levels in 2023, we expect additional capital consumption to pressure capital metrics down. On a regulatory basis, the bank's Common Equity Tier 1 capital ratio was 12.8% in March 2023, well above the minimum regulatory.

The bank has low reliance on wholesale funding, benefiting from its access to FNO resources, at roughly 62% of total funding, and an ample core deposit base that accounted for about 35% in March 2023. These deposits are supported by a granular distribution network in the legal Amazon region. Its role as a manager of the FNO also supports the bank's liquidity profile, which provides recurrent and sticky funding mix.

As a federal-owned bank, the Ba2 deposit rating acknowledges the 97% ownership and the social development role from the bank, and providing the bank the status of government-backed institution, which incorporates one notch of support from its BCA of ba3. The stable outlook on the long-term deposit ratings of Ba2 reflects our perspective for the sovereign rating of the Government of Brazil.

ESG CONSIDERATIONS

The assigned ratings also incorporate Banco de Amazônia's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology. Moody's assessment of Banco de Amazônia's exposure to governance risks reflects ongoing improvements to governance structure and controls the bank has implemented in the past 5 years, which is incorporated in a Governance Issuer Profile Score (IPS) of G-3. This assessment considers the bank's concentrated ownership by the federal government and the potential of political interference in the management team, as its CEO is appointed by the president of Brazil. Banco da Amazonia has shown sound risk management despite some asset risk concentration in the agriculture sector. The assigned ESG Credit Impact score of CIS-2 indicates the mitigating rating impact of very high government support over the bank's ESG risk profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Banco da Amazônia's Ba2 deposit ratings are unlikely to be upgraded because they are already positioned at the same level as Brazil's Ba2 sovereign rating. Positive pressure on the bank's BCA could result from bank's continuous expansion without a significant deterioration on its capital metrics, less-volatile profitability, and sustainably strong asset-quality metrics.

The bank's ratings could be downgraded if the sovereign rating is downgraded. Banco da Amazônia's ratings could also be downgraded if its BCA is lowered because of material deterioration in its asset risk and profitability, as well as a decline in its capital ratios.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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