

Banco do Brasil S.A.

Update

Key Rating Drivers

Sovereign Support Drives IDRs: Banco do Brasil S.A.'s (BdB) Issuer Default Ratings (IDRs) are equalized with Brazil's (BB-/Negative) sovereign rating. BdB's ratings are underpinned by its Viability Rating (VR). Fitch Ratings believes the bank would receive support from the federal government, if needed, which reflects the majority federal government ownership and resulting systemic importance, along with the bank's key policy role, particularly in rural lending.

VR Constrained by Environment: BdB's VR reflects constraints imposed by a challenging operating environment. The VR has a high influence on the bank's company profile. BdB is the second-largest bank in Brazil in terms of assets, the third-largest in loans and the largest by deposits. BdB has a leading franchise in multiple business segments, including agribusiness, insurance and asset management.

Adequate Asset Quality: Asset quality ratios remained adequate, as 'D-H' loans improved in 2021 reaching 7.9%, as of Sept. 30, 2021, from 8.8% at YE 2020. BdB's non-performing loans (NPLs) were 1.8% of gross loans in 2021 and stable compared with YE 2020 figures of 1.9%. NPLs coverage continues to be high at 323.3%, as of 3Q21, which provides the bank an adequate cushion for loan losses. Low NPLs reflects the bank's exposure to lower risk loans with solid guarantee structures for agribusiness, payroll and mortgages.

Earnings Stability: BdB's profitability during 2021 improved compared with 2020. The bank's operating profit/risk-weighted assets rose to 2.80%, as of 3Q21, from 1.65% at YE 2020, with a four-year average of 2.00%. These figures are poor compared with large private banks. Profitability is supported by a continuous strategy of efficiency, despite peers with higher efficiency ratios.

Hybrid Pre-Payments Unlikely to Affect Capitalization: The bank's common equity tier 1 (CET1) ratio reached 13.2%, as of 3Q21, from 13.6% at YE 2020 and 10.0% at YE 2019. The bank's regulatory capital ratios continued to improve. BdB's tier 1 and total regulatory capital ratios stood at 16.5% and 19.3%, respectively, as of 3Q21. The bank released the pre-payment of its BRL8.1 billion hybrid instrument starting in July 2022 until July 2029. In Fitch's view these payments are likely to be manageable, given the bank's good internal capital generation.

Strong Funding and Liquidity: BdB's funding is diversified and retail-based. BdB is the second-largest bank in Brazil in terms of assets, the third-largest in loans and the largest by deposits as of Sept. 30, 2021. Locally, BdB is considered a safe haven during economic downturns. Liquidity remains sufficient with a liquidity coverage ratio of 272.7% and net stable funding ratio of 116.4%, as of Sept. 30, 2021.

Rating Sensitivities

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

A rating upgrade is contingent on an upgrade of Brazil's sovereign rating. BdB's VR would be reviewed in the case of a sovereign upgrade but the VR currently has limited upside potential, as it is constrained by the bank's operating environment.

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

Ratings downgrades are primarily contingent on a downgrade of Brazil's sovereign rating. BdB's ratings are sensitive to changes in its strategic importance to the Brazilian government, still Fitch does not expect this change. BdB's VR would be reviewed in the case of a sovereign downgrade.

The VR would be negatively affected if the CET1 ratio falls below 9%, or regulatory capital ratios approach the minimum requirements, due to a combination of asset quality deterioration, profitability weakening or higher than expected growth. BdB's National Ratings may be affected by a change in Fitch's analysis of the bank's local situation against other Brazilian entities.

Ratings

Foreign Currency

Long-Term IDR	BB-
Short-Term IDR	B

Local Currency

Long-Term IDR	BB-
Short-Term IDR	B

Viability Rating	bb-
Support Rating	3
Support Rating Floor	BB-

National Ratings

National Long-Term Rating	AA(bra)
National Short-Term Rating	F1+(bra)

Sovereign Risk

Long-Term Foreign Currency IDR	BB-
Long-Term Local Currency IDR	BB-
Country Ceiling	BB

Outlooks

Long-Term Foreign Currency IDR	Negative
Long-Term Local Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term	Negative
Foreign Currency IDR	
Sovereign Long-Term	Negative
Local Currency IDR	

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Affirms Brazil's 'BB-' Ratings; Outlook Negative \(December 2021\)](#)

[Fitch Affirms Banco do Brasil's Ratings at 'BB-'; Outlook Negative \(June 2021\)](#)

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Key Ratios

(% as of Dec. 31)	9/30/21	2020	2019	2018	2017
Profitability					
Operating Profit/Risk-Weighted Assets	2.8	1.7	1.4	2.5	2.3
Net Interest Income/Average Earning Assets	3.4	3.3	3.7	3.7	4.2
Non-Interest Expense/Gross Revenue	61.2	61.4	66.5	58.4	57.0
Net Income/Average Equity	14.8	12.2	19.7	14.0	13.8
Asset Quality					
Impaired Loans	7.9	8.8	8.4	7.8	8.5
Growth in Gross Loans	9.3	9.7	(3.0)	1.2	(3.2)
Loan Loss Allowances/Impaired Loans	74.8	75.5	76.5	68.4	68.5
Loan Impairment Charges/Average Gross Loans	1.3	2.8	2.5	2.3	3.2
Capitalization					
Common Equity Tier 1	13.2	13.6	10.0	10.0	10.5
Fully Loaded Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital	N.A.	N.A.	13.3	12.7	12.3
Tangible Common Equity/Tangible Assets	7.0	6.9	6.8	6.7	6.6
Basel Leverage	7.2	7.6	8.5	8.2	8.5
Net Impaired Loans/Common Equity Tier 1	13.0	14.1	17.2	22.3	23.3
Net Impaired Loans/Fitch Core Capital	N.A.	N.A.	13.0	17.6	19.8
Funding and Liquidity					
Gross Loans/Customer Deposits	113.1	113.3	128.1	141.5	148.4
Liquidity Coverage	272.7	314.5	337.1	242.5	234.5
Customer Deposits/Total Non-Equity Funding	40.8	42.7	40.3	38.2	37.1
Net Stable Funding	116.4	123.2	N.A.	N.A.	N.A.

N.A. – Not applicable. Note: Ratios are annualized as appropriate.
Source: Fitch Ratings, Fitch Solutions, Banco do Brasil, S.A.

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