

CREDIT OPINION

21 June 2024

Update

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RATINGS

Banco Cooperativo Sicredi S.A.

Domicile	Porto Alegre, Rio Grande do Sul, Brazil
Long Term CRR	Ba1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
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.

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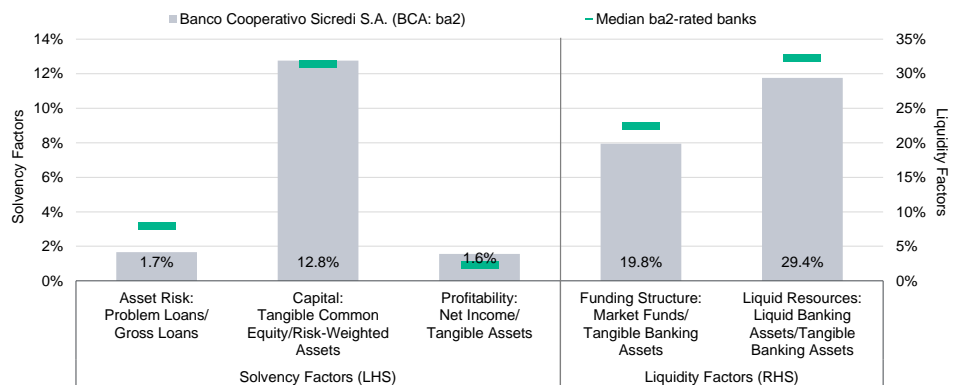
Banco Cooperativo Sicredi S.A.

Update following rating affirmation and outlook change to stable

Summary

Moody's assigns a corporate family rating of Ba2 to [Banco Cooperativo Sicredi S.A.](#) (Banco Sicredi). Banco Sicredi is the central entity of Sistema de Crédito Cooperativo Sicredi (Sicredi). Moody's assesses Sicredi's as if it operated as a single entity, taking into consideration its strategic and operational cohesion, common policies for credit risk, liquidity risk and capitalization; as well as the principle of solidarity within the group. The Ba2 rating incorporates the cooperative system's consistently low asset risk, strong capitalization and profitability, as well as the bank's granular funding structure that has supported Sicredi's rapid loan growth. Banco Sicredi's ratings also reflect the complexities involved in operating a large federated cooperative system and its concentrated risk exposure to the agricultural industry. It has a presence in all Brazilian states plus the Federal District, and offers traditional financial services to associates (such as lending, credit cards, insurance and investments) under the same brand and common risk policies. Banco Sicredi's ratings outlook is stable, taking into account the increase in challenges that Sicredi will face in the coming quarters with the crystallization of asset risks arising from the floods in Rio Grande do Sul and the moderation in business volumes that will affect the firm's future earnings generation.

Exhibit 1
Rating Scorecard - Key financial ratios
As of March 2024



For the asset risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data, if available and the ratio used is the weaker of the average and the latest period. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.

Source: Moody's Financial Metrics

Credit strengths

- » Strong capitalization, both at the combined group and at each individual entity of the Sicredi network
- » Resilient profitability, largely driven by high margin lending operations and low cost of funding
- » Granular funding structure, largely composed of cooperative associates' deposits

Credit challenges

- » Asset risk and profitability pressures due to a high rates operating environment in Brazil despite conservative risk management and below system average problem loans
- » Intrinsic limitations to franchise business flexibility and growth, due to cooperative model

Rating outlook

The stable outlook for Banco Sicredi reflects that currently there are no pressures to the ratings.

Factors that could lead to an upgrade

- » Banco Sicredi's ba2 BCA is at the level of Brazil's sovereign rating. An improvement in the metrics would only lead to upward pressure in the event of an upgrade in Brazil's bond rating.

Factors that could lead to a downgrade

- » Negative pressure on Banco Sicredi's ratings would derive from significant weakening of its strong financial fundamentals, including a deterioration in the quality loan portfolio that could result from its rapid expansion and adverse selection, which, on the other hand, would strain on Sicredi's profitability and capital generation capacity.
- » A downgrade in Brazil's ratings would lead to a downgrade in the ratings as well.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Banco Cooperativo Sicredi S.A. (Consolidated Financials) [1]

	03-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (BRL Million)	340,160.4	324,543.2	263,508.6	197,573.8	154,860.9	27.4 ⁴
Total Assets (USD Million)	67,956.6	66,811.4	49,909.3	35,431.0	29,814.2	28.9 ⁴
Tangible Common Equity (BRL Million)	38,032.5	36,632.5	29,886.7	24,543.5	19,845.5	22.2 ⁴
Tangible Common Equity (USD Million)	7,598.1	7,541.3	5,660.6	4,401.4	3,820.7	23.6 ⁴
Problem Loans / Gross Loans (%)	1.7	1.5	1.1	0.6	0.6	1.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	12.8	12.3	--	--	--	12.6 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.8	6.2	4.9	3.0	2.6	4.7 ⁵
Net Interest Margin (%)	7.1	7.3	7.4	6.9	7.5	7.2 ⁵
PPI / Average RWA (%)	5.0	--	--	--	--	5.0 ⁶
Net Income / Tangible Assets (%)	1.6	2.1	2.2	2.4	2.1	2.1 ⁵
Cost / Income Ratio (%)	49.2	49.0	50.1	53.3	55.7	51.5 ⁵
Market Funds / Tangible Banking Assets (%)	20.6	19.8	19.7	20.2	16.8	19.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	29.8	29.4	26.8	26.4	31.3	28.7 ⁵
Gross Loans / Due to Customers (%)	88.4	88.7	93.7	105.5	94.6	94.2 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 Ratings and company filings

Profile

Banco Cooperativo Sicredi is the central banking entity of Sistema de Crédito Cooperativo Sicredi, a federated credit cooperative system in Brazil that, as of March 2024, was comprised of 104 credit unions and more than 7.8 million depositors (members) with a presence in all Brazilian states plus the Federal District. Sicredi offers traditional financial services to associates under a common brand and following centralized risk policies and controls. In accordance with the cooperative culture, members of Sicredi's individual credit unions are also the shareholders of those credit unions.

Detailed credit considerations

Negative impact from recent climate events are expected to be partially mitigated by Sicredi's conservative credit underwriting and provisioning standards

Moody's assigns a ba1 score to Sicredi's asset risk, reflecting its granular, geographically diversified loan book and conservative provisioning policies. At the same time, the score incorporates our view on sector concentration and our expectation that the seasoning of the recent strong growth of Sicredi's loan portfolio could lead to higher asset risk. Sicredi reported a 24.8% compound annual growth rate in the past three years (2021-2023). This continued in Q1 2024 with a 19.4% year-over-year (YoY) growth, around double the expansion of total credit in Brazil in the same periods. Moreover, recent historical floods in Sicredi's home state, Rio Grande do Sul, where it holds 30% of its credit portfolio, should add negative pressure on asset risk metrics.

As of March 2024, Sicredi's problem loans ratio increased to 1.7%, higher than the 1.2% one year prior and the 1.4% average in 2016-2019. The mild deterioration reflects the industry trend on retail lending as a consequence of still high interest rates and household indebtedness. Of note, Sicredi's problem loans as calculated by Moody's include only installments past due by 15 days or more. The group's strong asset quality indicators to peers' can also be demonstrated when we look at non performing loans over 90 days, which represented 2.3% of its portfolio in March 2024, below the 3.2% for the entire Brazilian banking system as of the same date. Additionally, the bank also maintained a high reserve coverage ratio, equivalent to 3.1x its problem loans as measured by Moody's in March 2024, which will continue to mitigate rising asset risks related to the accelerated business growth, in an economic environment that will continue to strain individuals' repayment capacity over the next quarters. In addition, recent extreme climate events in the state of Rio Grande do Sul where the bank has around 30% of its loan portfolio may negatively impact asset quality metrics in the next quarters. However, we highlight that recent government measures to alleviate the financial impact to the banks, alongside the group adequate liquidity and current low level of delinquency provides resilience to the financial profile.

Sicredi actively monitors actual and potential environmental risk that could come from its loans to corporate associates and applies strict underwriting guidelines to manage its potential reputational risks associated with lending to such companies. The group's internal regulation also states that a credit union cannot provide new loans if it does not comply with the minimum liquidity, capital and asset risk thresholds established centrally by risk management, and a recovery plan must be implemented. In addition, each credit union must hold sufficient reserves to cover its problem loans, providing a relevant loss absorption buffer.

Strict leverage policy has supported Sicredi's capitalization through its accelerated expansion

We score Sicredi's capital as ba1, reflecting Sicredi's credit unions above average capitalization, strict leverage policies, and solid track record of capital replenishment capacity through the cycles. According to internal regulations, each credit union must report capital ratios at least 300 basis points above regulatory minimum, which ensures a solid position at the network level. The ratios are centrally monitored and noncompliant entities are only allowed to originate new credit operations under the supervision of regional centers. Credit unions whose capital ratios remain below internal thresholds must present plans to replenish capital. The group also benefits from regular reinvestment of net income in its capital structure.

In line with its cooperative nature, each of Sicredi's individual associates is a shareholder of the group and new joiners are required to make an equity injection to be a member. These contributions and the systematic earnings retentions have historically supported a high capitalization at the group level, with capital primarily made of common equity. In Q1 2024, the tangible common equity to adjusted risk-weighted assets ratio¹ was 12.8% and the group's common equity tier 1 ratio 18.0%.

In terms of ownership structure, the local credit unions and the five regional centers are the shareholders of Sicredi Participações - the holding entity that controls Banco Cooperativo Sicredi.

Strong profitability partially mitigates negative effects from recent climate events

Although profit maximization is not Sicredi's main objective, given its cooperative model, the group's profitability metrics remained strong between 2021 and 2023 with an average net income to tangible assets ratio of 2.3%, reflecting the high loan growth pace and stable service revenue that partially compensated for increasing funding and credit costs. The group also benefits from the fact that income from cooperative lending activities is not taxable under Brazilian tax law. As of March 2024, net income to tangible assets reached 1.6%, impacted by higher loan loss provisions expense, as result of higher delinquency metrics. Loan loss provisions to gross loans reached 4.4% in Q1 2024, from 2.8% in the same period of the previous year. Looking forward we expect provisioning expense to continued pressured as a result of increasing asset risk associated with the floods in Rio Grande do Sul. Moreover, despite Sicredi's well-established position in its core markets, the group is exposed to rising competition from large commercial banks that have increased their footprint in agribusiness, which will pressure future margins and bottom line results.

Operating efficiency remained relatively flat at 49.2% in the first three months of 2024, despite the higher costs related to the franchise expansion, which has been largely helped by digital initiatives. Sicredi is present in more than a thousand cities, which provides geographical diversification to earnings. At the same time, this characteristic weighs on Sicredi's operating expenses, as individual credit unions lack operational scale and must comply individually with regulatory demands from the Central Bank, including the reporting of audited financials.

Our score of baa3 for profitability reflects Sicredi's strong track record, as well the challenges the group faces in maintaining high profitability in light of increasing competition and challenging operational environment.

Liquidity is supported by Sicredi's granular deposit base and access to local capital markets

Sicredi's combined liquidity score of baa3 is driven by the group's stable and granular funding base, as well its conservative liquidity management across the cooperative system. The adequate liquidity levels provides a buffer for potential deposit withdrawals as a result of the climatic event in Rio Grande do Sul, as well as for the loans forbearance and renegotiations that the situation will require.

As of March 2024, deposits and deposit-like instruments were its major funding source accounting for 75.7% of Sicredi's total funding. The second most important source are domestic onlending operations mostly from government-owned development bank [Banco Nac. Desenv. Economico e Social - BNDES](#)¹ (Ba2 positive, ba2²) totaling BRL25.6 billion, which are channeled through Banco Sicredi to the credit unions and represented 8.7% of Sicredi's funding. According to internal regulations, the minimum amount of liquidity established for each entity depends on the volatility of its funding availability, being higher for unions with higher deposit concentrations and noncompliant

entities cannot disburse new loans. We understand such measures help to address the challenges imposed by the complex and heterogenic network and reinforce the cross guarantee in place.

Liquidity is managed centrally and operated by its banking entity. In addition, credit unions are protected by a cross guarantee in the event of any liquidity or capital needs, which has historically reflected into a conservative liquidity profile to the group. In 2024, despite the high growth of the portfolio, liquidity buffers remain stable supported by the increase in deposits from customers. Liquid assets to tangible banking assets ratio also increased to 29.8% in March 2024 from 28.3% one year prior, but lower than the 37.5% average between 2015 and 2020.

Qualitative adjustments

Sicredi's cooperative model results in intrinsic limitations to its franchise in terms of business flexibility and growth. In addition, the cooperative system as a whole presents higher structural complexity, which derives from the heterogeneity of individual cooperative entities, than rated commercial banks. The comprehensive and timely risk monitoring by Banco Sicredi counterbalances this complexity. Nonetheless, in order to reflect this increased complexity, we assign a qualitative adjustment of -1 for opacity and complexity to Banco Sicredi.

Banco Sicredi's rating is supported by the Moderate Macro Profile of Brazil

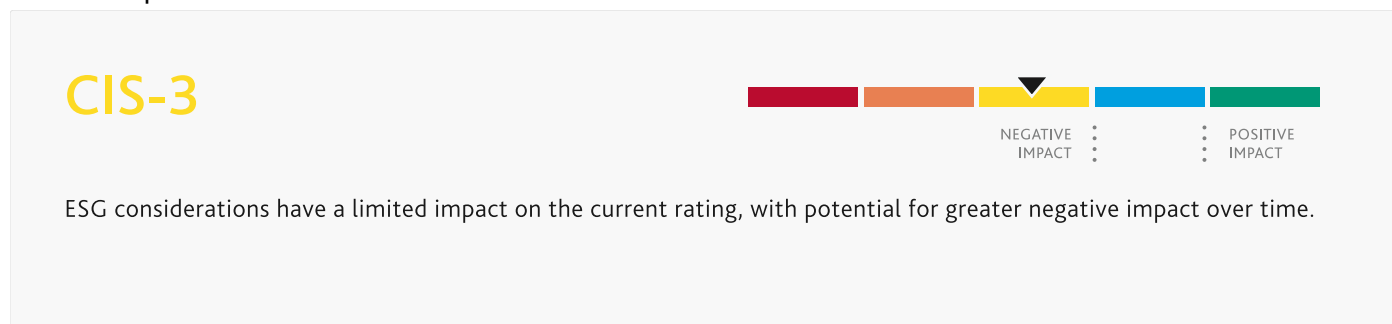
Brazil's (Ba2 positive) Macro Profile of "Moderate" is supported by the country's large and highly diversified economy with limited exposure to external financing risks. It also incorporates our improvements in the business environment for banks from recent reforms, including the independence of the central bank; the state-owned company law; labor reform; and a collateral framework that reduced uncertainties about judicial disputes and the potential for political intervention in the financial system. We forecast a real GDP growth to moderate in 2024 and 2025 to 2.0% after growing around 3.0% in the previous couple of years.

Our assessment acknowledges the current momentum as Brazil's banking system moves out of the credit cycle's downturn, with declining but still-high delinquency ratios and household indebtedness amid tighter liquidity on global capital markets, which will continue to pressure credit conditions ahead.

ESG considerations

Banco Cooperativo Sicredi S.A.'s ESG credit impact score is CIS-3

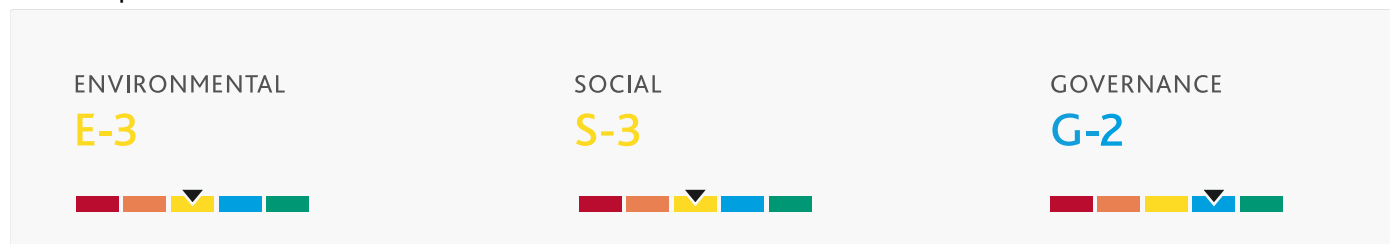
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Sicredi's **CIS-3** reflects the moderate credit impact of environmental and social risk factors on the rating to date and low governance risks. Corporate governance practices are robust, relying on Sicredi's corporativism model that have supported the bank's credit profile across different economic cycles. The bank has a strong track record of earnings recurrence, underpinned by its sound risk management practices.

Exhibit 4

ESG issuer profile scores

Source: Moody's Ratings

Environmental

Sicredi faces moderate exposure to environmental risks because of its portfolio exposure to carbon transition and physical climate risks as a large cooperative bank with meaningful lending activity to rural borrowers. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social

Sicredi faces moderate social risks related to customer relations. The bank's developed policies and procedures, mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation; Sicredi has activities primarily in Brazil, a country which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

Governance

Sicredi faces low governance risks, and its risk management policies and procedures are in line with industry best practices. Sicredi's board is elected by the members of the cooperative and its ownership structure is diversified and granular. The bank's management has a strong track record of good compliance and in maintaining the bank's steady earnings generation.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations**Notching considerations**

In the absence of a bail-in resolution regime framework in Brazil, the ratings of subordinated debts, bank hybrids and contingent capital securities follow the "Additional Notching Guidelines", as per the Rating Methodology: Banks. In these cases, the approach takes into account other features specific to debt classes, resulting in additional notching from the adjusted baseline credit assessment (BCA) of the issuer.

Government support

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

Counterparty Risk (CR) Assessment**Sicredi's CR Assessment is Ba1(CR)/Not Prime(CR)**

The CR Assessment of Ba1(cr) is one notch above the Adjusted BCA of ba2 based on our view that senior obligations represented by the CR Assessment will be more likely preserved than senior unsecured debt in order 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 Rating (CRR)

Sicredi's CRRs are Ba1/NP

Sicredi's global local-currency CRRs are positioned at Ba1 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.

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 5

Banco Cooperativo Sicredi 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	1.7%	baa1	↔	ba1	Sector concentration	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.8%	baa3	↔	ba1	Risk-weighted capitalisation		
Profitability							
Net Income / Tangible Assets	1.6%	baa1	↔	baa3	Return on assets	Expected trend	
Combined Solvency Score		baa2		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	19.8%	baa3	↔	baa3	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	29.4%	baa3	↔	baa3			
Combined Liquidity Score		baa3		baa3			
Financial Profile				ba1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				-1			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Ba2			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				0			
Adjusted BCA				ba2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	ba1	0	Ba1	Ba1	
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1(cr)		
Senior unsecured bank debt	0	0	ba2	0	Ba2		

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

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO COOPERATIVO SICREDI S.A.	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Corporate Family Rating	Ba2
Issuer Rating -Dom Curr	Ba2
ST Issuer Rating -Dom Curr	NP

Source: Moody's Ratings

Endnotes

- 1 We adjust banks' TCE to RWA ratios by assigning a 100% risk-weight for government securities and limiting the amount of deferred tax assets (DTA) that can contribute to their TCE.
- 2 The bank ratings shown in this report are the bank's domestic deposit rating and BCA.

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