

Research Update:

Banco Cooperativo Sicredi S.A. 'BB' And 'brAAA' Ratings Affirmed, Removed From CreditWatch Negative; Outlook Stable

July 30, 2024

Overview

- We view Banco Sicredi's credit losses from recent unprecedented flood damage as manageable, and they should not significantly affect the group's financial metrics despite the economic challenges imposed by the event.
- Moreover, the group has maintained sound capital and liquidity that would cover additional losses and liquidity needs, should they materialize.
- We therefore removed our 'BB' global scale and 'brAAA' national scale ratings on Banco Cooperativo Sicredi S.A. from CreditWatch, where we had placed them with negative implications on May 9, 2024, and affirmed the ratings.
- The stable outlook reflects our expectation that in the next 12 months, the bank will continue strengthening its cooperative business model, expanding the number of members and its geographic reach with good profitability. We don't expect the flooding to affect financial results this year.

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Rating Action

On July 30, 2024, S&P Global Ratings removed its 'BB' global scale and 'brAAA' national scale issuer credit ratings on Banco Cooperativo Sicredi S.A. from CreditWatch, where they had been placed with negative implications on May 9, 2024, and affirmed the ratings. The outlook is stable.

Rationale

Two months after the flooding in Rio Grande do Sul, we have more clarity about how the damage could impose economic losses on the state and affect the Sicredi cooperative system's overall creditworthiness. Sicredi has approximately 30%, or around Brazilian real (R\$) 67 billion, of its credit portfolio in Rio Grande do Sul, and the company estimates less than 10% (around R\$5.2

billion) of this total is exposed to municipalities that took a severe hit from the floods. We expect provision needs will not exceed R\$2.0 billion, considering the high guarantee cover Sicredi has on this portfolio. Moreover, if these credit losses materialize, they will likely be diluted within the next few years.

Sicredi has also extended 2.5% of its loan installments since May 2024 to provide flexibility and help prevent default for affected clients. In our view, the financial effects of the floods have so far been manageable for the bank and the system and should not affect the ratings on Banco Sicredi.

Therefore, we removed the ratings from CreditWatch negative, where we had placed them to reflect uncertainty about the magnitude of the effects of the extremely high rainfall in Rio Grande do Sul. We now expect the negative impact of the event will be mitigated in the coming years without damaging Sicredi's financial results, given its well-diversified loan portfolio within the region.

Sicredi has maintained sound liquidity in the past three months. We view its liquidity policy as conservative, with high liquid assets invested mainly in government bonds. In the past three months, its liquid assets grew nearly 8%, reaching over R\$100 billion. Considering broad liquid assets covered short-term wholesale funding by 4.6x as of March 2024, we think Banco Sicredi has sufficient liquidity to cover for any stress event.

The ratings on Banco Sicredi reflect the Sicredi system's aggregate credit quality. We base our analysis on our opinion that the bank and the credit unions that are part of the system form an integrated institution that would provide support in any foreseeable circumstance to any of the system's entities. We think the bank's high importance to the system's strategy--given that it's the intermediary between the credit unions and the market--makes it a core entity for the group. As a result, the rating on the bank reflects the group credit profile.

Although Sicredi doesn't have an aggregate calculation of regulatory capital, it maintains individual control of the regulatory capital indices of each cooperative and the bank, which are solidly above the minimum regulatory requirements. As of May 2024, the aggregate Basel III ratio for the system and for the cooperatives in Rio Grande do Sul were 19.5% and 21.3%, respectively. These are the same levels reported in April 2024.

Outlook

The stable outlook reflects our expectation that in the next 12 months, Sicredi will continue strengthening its cooperative business model, expanding the number of members and its geographic reach with good profitability, despite the economic challenges imposed by the flood damage.

Downside scenario

Our rating on Sicredi is at the same level as that on the sovereign, so we would likely downgrade the bank following a similar action on the sovereign. In addition, we could downgrade Sicredi if its credit fundamentals deteriorated, which could occur if the bank's risk-adjusted capital eroded or if we observed asset quality deterioration. Finally, we could lower the rating if any unforeseen impact from the floods in Rio Grande do Sul damaged Sicredi's earnings, funding stability, or capital position, although we consider this unlikely.

Upside scenario

We could raise the rating on Sicredi following an improvement in its fundamentals and if we were to upgrade the sovereign; however, we consider this unlikely in the next year.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB/Stable/--	BB/Watch Neg/--
SACP	bb	bb
Anchor	bb+	bb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support		
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Banco Cooperativo Scredi S.A.		
Issuer Credit Rating	BB/Stable/--	BB/Watch Neg/--
Brazil National Scale	brAAA/Stable/--	brAAA/Watch Neg/--

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