



RATING ACTION COMMENTARY

Fitch Takes Rating Actions on 12 Brazilian Banks Following Sovereign Upgrade

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Fitch Ratings - Rio de Janeiro - 02 Aug 2023: Fitch Ratings has upgraded the Long-Term (LT) Issuer Default Ratings (IDRs) of 12 Brazilian financial institutions (FIs) following the upgrade of Brazil's sovereign LT IDRs to 'BB'/Stable from 'BB-'/Stable on July 26, 2023, and after the adjustment of Fitch's assessment of the operating environment (OE) for Brazilian banks to 'bb'/Stable from 'bb-'/Stable. For additional details on the sovereign rating action see "Fitch Upgrades Brazil to 'BB'; Outlook Stable" at www.fitchratings.com.

The OE upgrade reflects the positive trend in Fitch's core metrics for the OE assessment and the Brazilian economy's sustained recovery, translating to resilient banking sector performance. Fitch's key metrics used to determine the country's OE score are the Operational Risk Index (ORI) and GDP per capita. Both of these metrics indicated a positive trend for Brazil as the OE recovered from the recent macro challenges. The latest ORI was 51.3% compared with 49.7% in 2022, while, as of YE2022, the GDP per capita was USD8,905, compared with USD7,705 in 2021.

Today's rating action review includes Brazilian FIs whose IDRs are either constrained at the same level or one notch above Brazil's sovereign rating. The banks' National Ratings were not directly affected, as these ratings reflect the relative strengths and weaknesses of each institution in the domestic jurisdiction.

KEY RATING DRIVERS

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Government Support-Driven FIs:

Caixa Econômica Federal (Caixa)

Banco do Brasil S.A. (BdB)

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

Banco do Nordeste do Brasil S.A. (BNB)

Banco da Amazônia S.A. (BdA)

The banks' IDRs in this group are driven by their GSRs which are aligned to Brazil's sovereign ratings and, consequently, the revision of their IDRs to `BB` with a Stable Outlook and the GSR to 'bb' mirrors the action taken on the LT IDRs of Brazil. In addition to having their full (or major) ownership exercised by the Brazilian federal government, these institutions have an important and long-lasting policy role, as the agency considers they are key agents for the implementation of government economic guidelines.

VR-Driven FIs Rated at or Above the Sovereign:

Banco Bradesco S.A. (Bradesco)

Itaú Unibanco S.A. (Itau)

Itaú Unibanco Holding S.A. (IUH)

Banco BTG Pactual S.A. (BTG)

BdB

Bradesco, IUH, Itau and BTG's IDRs are driven by their intrinsic creditworthiness (or Viability Ratings [VRs]). BdB's IDRs are driven by potential support, but the IDRs are further underpinned by its VR. This group includes banks with consolidated business profiles in the context of the domestic environment, but also with strong links imposed by its historical ample exposure to the sovereign.

Fitch has upgraded BdB's VR to 'bb' from 'bb-'. In the case of Bradesco, Itau and IUH Fitch has upgraded their IDRs and VRs to 'BB+' and 'bb+', respectively, which are now one notch above the sovereign level, reflecting their fairly diversified and very strong credit profiles; their historical resilience, performing as a safe haven in periods of economic uncertainty; and the relevant roles they play in the Brazilian financial system. This also means that they have robust financial cushions to absorb potential outcomes from adverse external economic conditions compared with entities rated at lower levels. Fitch has also upgraded Itau, IUH and Bradesco's GSRs (to bb- from b+) following the same rating action on Brazil's IDRs.

Fitch upgraded BTG's IDRs to BB from BB-. The bank's IDRs are in line and driven by its standalone creditworthiness as measured by its VR, which was also upgraded to 'bb' from 'bb-'. Prior to today's rating actions, BTG IDRs were on Positive Outlook, reflecting Fitch's view that maintenance of demonstrated improvements in the bank's business and financial profile could provide some upside potential for its rating over the near term. However, the previously assigned VR was also one notch below the implied VR, as Fitch rarely assigns a bank VR above the sovereign rating. Following Brazil's sovereign rating action and the upgrade on the bank's IDRs, the Outlook on the ratings is now Stable.

Shareholder Support Driven (Local and Foreign Owned) FIs:

Banco BOCOM BBM S.A. (BBM)

Banco Pan S.A. (Pan)

BTG Pactual Holding S.A. (BTGH)

IDRs on the institutions of this group are driven by the Shareholder Support Rating (SSR), which reflects the likelihood of receiving support from their respective parents (or driven by the credit profile of their main operating subsidiary, as in the case of BTGH), which are rated at or above the Brazilian sovereign rating.

BBM's IDRs are driven by its SSR were upgraded to 'bb+' from 'bb' and reflect Fitch's assessment of the expected institutional support, in case of need, from its parent, Bank of Communications Co., Ltd. (BOCOM; A/Stable). Its Long-Term Foreign Currency IDR was upgraded to 'BB+'/Stable from 'BB'/Stable and is constrained by Brazil's 'BB+' Country Ceiling, while their Long-Term Local Currency IDR was upgraded to 'BBB-'/Stable from 'BB+'/Stable since it remains capped at two notches above Brazil's Local Currency sovereign rating (BB/Stable). BBM's VR has been affirmed at 'bb-'.

Fitch's view is that the propensity and ability of its parent to provide support is linked to Brazilian sovereign risk and the country ceiling, and might be reduced in case of extreme sovereign stress, despite the group's strategic commitment to the country.

Pan's IDRs were also upgraded to 'BB'/Stable from 'BB-'/Positive due to Fitch's understanding that this level of rating reflects BTG's high propensity of support since both controller and subsidiary operate in the same jurisdiction, are subject to the same regulations, and, following the acquisition, are part of the same regulatory group under the prudential regulation of Brazil's central bank. Therefore, the SSR was also upgraded to 'bb' from 'bb-' and in Fitch's view, a lack of support would represent a high

reputational risk for the parent. The Stable Outlook on Pan's Long-Term IDRs reflects the Outlook assigned to its parent. PAN's VR has been affirmed at 'bb-'.

BTGH is a pure Holding company and its IDRs are the same level of BTG's IDRs. The ratings equalization is based on the high correlation between the credit risk of BTG and BTGH.

RATING SENSITIVITIES

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

Fitch considers that all FIs included in this review remain constrained by the sovereign rating or by the usual maximum uplift of one notch above the sovereign and, therefore, the main sensitivities of all entities included in this action are linked to potential changes in the sovereign ratings, in any direction. Similarly, IDRs, which are derived from SSR or GSR, of the entities mentioned in this report remain dependent on Fitch's view regarding the ability and/or propensity of its ultimate parent in providing support to the controlled entity/subsidiary in case of need and will change depending on Fitch's opinion on it. For more details and for the individual sensitivities derived from each institution VR, please access the individual report of each entity.

Rating downside primarily would be also contingent on a downgrade of the Brazilian sovereign rating or the OE.

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

Upside is contingent to an upgrade on the sovereign or the OE.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Debt Ratings

The senior unsecured issuances from BdB, BTG, IUH, Bradesco and BNDES were also upgraded, reflecting the fact that default on senior obligations equates to the default of the banks (as captured by the issuer's IDR). The subordinated issuances from BTG and IUH were also upgraded following the one notch upgrade on its respective anchor ratings (i.e., its IDRs, based on the respective VRs of each of these two entities). BTG's rating of the T2 subordinated notes remain two levels below its VR, reflecting the expected loss severity. IUH's additional Tier 1 (AT1) securities were affirmed at 'B', four notches below the bank's VR, in line with Fitch's baseline notching for high loss-absorbing and subordinated securities (two for loss severity and two for non-performance risk).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior unsecured debt ratings are sensitive to a change in banks' IDRs. The hybrid ratings (for banks' Tier II subordinated debt and AT1) are sensitive to a change in their anchor VR.

VR ADJUSTMENTS

Itau and IUH:

The Asset Quality score of 'bb' was assigned above the 'b' category implied score because of the following adjustment reasons: Collateral and Reserves (positive).

Bradesco:

The Asset Quality score of 'bb' was assigned above the 'b' category implied score because of the following reason: Collateral and Reserves (positive).

The Capitalization & Leverage score of 'bb-' has been assigned above the 'b' category implied score because of the following adjustment reasons: Reserve Coverage and Asset Valuation (positive).

BTG:

The Asset Quality score of 'bb' has been assigned above the implied 'b' Asset Quality score due to the following adjustment reason: Underwriting Standards and Growth (positive).

BdB:

The Asset Quality score of 'bb' was assigned above the implied score of 'b' due to the following reason: Collateral and Reserves (positive).

BBM:

The Business Profile score of 'bb-' has been assigned above the implied 'b' Business Profile score due to the following adjustment reason: Group Benefits and Risks (positive).

The Earnings & Profitability score of 'b+' has been assigned below the implied 'bb' Earnings & Profitability score due to the following adjustment reason: Revenue Diversification (negative).

The Funding & Liquidity score of 'bb-' has been assigned above the implied 'b' Funding & Liquidity score due to the following adjustment reason: Non-Deposit Funding (positive).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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

International Entity's SSR and IDRs are linked to the IDRs of its parent.

PAN's SSR is linked to the IDRs of its parent's (BTG Pactual).

BOCOM BBM's IDRs and SSR are driven by support from the Bank of Communications Co, Ltd. (BOCOM; LT FC IDR A/Stable)Caixa, BNB, BNDES, BASA and Banco do Brasil's GSR and IDRs are linked to the IDRs of Brazil.

Bradesco and IUH's GSR are linked to the IDRs of Brazil.

ESG CONSIDERATIONS

Fitch assigns Caixa a ESG Relevance Score for 'Community Relations, Social Access, Affordability' of '4[+]'. CAIXA's public sector ownership supports its ability to attract low-cost retail deposits, while its policy role ensures it retains a dominant position in the low-income retail mortgage market. These factors considerably boost CAIXA's franchise, strengthen its credit profile and have a moderately positive impact on its ratings in conjunction with other factors.

Fitch's ESG Relevance Score for Governance Structure for Caixa, BNDES, BNB and BdA was changed to '3' from '4' reflecting substantive enhancements to the companies' governance structure over the past years and Fitch's expectation of overall stability in the long-term strategy of the banks.

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>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Banco BOCOM BBM S.A.	LT IDR	BB+ Rating Outlook Stable		BB Rating Outlook Stable
	Upgrade			
	ST IDR	B	Affirmed	B
	LC LT IDR	BBB- Rating Outlook Stable		BB+ Rating Outlook Stable
	Upgrade			
	LC ST IDR	F3	Upgrade	B
	Viability	bb-	Affirmed	bb-
	Shareholder Support	bb+	Upgrade	bb

Itau Unibanco Holding S.A.	LT IDR	BB+ Rating Outlook Stable		BB Rating Outlook Stable
	Upgrade			Stable
<hr/>				
	ST IDR	B	Affirmed	B
<hr/>				
	LC LT IDR	BB+ Rating Outlook Stable		BB Rating Outlook Stable
	Upgrade			Stable
<hr/>				
	LC ST IDR	B	Affirmed	B
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[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Banco BOCOM BBM S.A.

EU Endorsed, UK Endorsec

Banco Bradesco S.A.

EU Endorsed, UK Endorsec

Banco BTG Pactual S.A.

EU Endorsed, UK Endorsec

Banco da Amazonia S.A.

EU Endorsed, UK Endorsec

Banco do Brasil S.A.	EU Endorsed, UK Endorsec
Banco do Nordeste do Brasil S.A.	EU Endorsed, UK Endorsec
Banco Nacional de Desenvolvimento Economico e Social (BNDES)	EU Endorsed, UK Endorsec
Banco PAN S.A.	EU Endorsed, UK Endorsec
BTG Pactual Holding S.A.	EU Endorsed, UK Endorsec
Caixa Economica Federal	EU Endorsed, UK Endorsec
Itau Unibanco Holding S.A.	EU Endorsed, UK Endorsec
Itau Unibanco S.A.	EU Endorsed, UK Endorsec

UNSOLICITED ISSUERS

Banco Nacional de Desenvolvimento Economico e Social (BNDES) (Unsolicited)

With Rated Entity or Related Third Party Participation	Yes	►
With Access to Internal Documents	No	
With Access to Management	Yes	

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UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Banco Nacional de Desenvolvimento Economico e Social (BNDES)	-	Local Currency Short Term Issuer Default Rating	Unsolicited
Banco Nacional de Desenvolvimento Economico e Social (BNDES) senior unsecured bond/note	US059614AM99	Long Term Rating	Unsolicited
Banco Nacional de Desenvolvimento Economico e Social (BNDES)	-	Government Support Rating	Unsolicited

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