



Rating Action: Moody's Ratings upgrades 23 Brazilian financial institutions' deposit and debt ratings

02 Oct 2024

Rating actions follow the upgrade to Ba1 of Government of Brazil's bond rating, with a positive outlook

New York, October 02, 2024 -- Moody's Ratings (Moody's) has today taken rating actions on 23 Brazilian financial institutions, including these issuers' associated entities. The rating actions were prompted by the upgrade of the Government of Brazil's (Brazil) sovereign bond rating to Ba1 from Ba2, which outlook remained positive. For further information on the sovereign rating action, please refer to press release dated 1 October 2024 (<https://ratings.moodys.com/ratings-news/429722>).

In line with the sovereign rating action, we upgraded 12 banks' baseline credit assessments (BCAs) to ba1 from ba2, which were constrained by Brazil's sovereign bond rating, as well as one bank's BCA to ba2 from ba3. In addition, we also upgraded the long-term local- and foreign-currency deposit ratings of 14 banks and the long-term foreign-currency unsecured debt ratings of 17 financial institutions, including holding companies and offshore branches, as well as the long-term Corporate Family Ratings (CFR) and long-term local-currency issuer ratings (where applicable), of five financial institutions. Additionally, we upgraded the Counterparty Risk Ratings (CRR) and Counterparty Risk Assessments (CRA) assigned to 25 financial institutions and to respective offshore branches. We also affirmed other assessments and deposit ratings that were not affected by this rating action. We maintained the positive outlook on ratings assigned to 21 financial institutions, and their associated entities (where applicable), changed to stable from positive the outlook on the deposit ratings of one bank, and maintained the stable outlook on the deposit ratings of two banks.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL496779 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

(1) ISSUER-SPECIFIC CONSIDERATIONS

BANCO DO BRASIL S.A. (BB)

The upgrade of BB's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2, reflects: (1) the upgrade of its BCA to ba1 from ba2, driven by the bank's consistent generation of recurring earnings, better-than-peers capital metrics, strong asset quality and ample access to stable core deposits; and (2) our unchanged assumption of the highest degree of support from the federal government to BB.

ITAU UNIBANCO S.A. (Itau Unibanco) AND ITAU UNIBANCO HOLDING S.A. (Itau Unibanco Holding)

The upgrade of Itau Unibanco's long-term local- and foreign-currency deposit ratings to Ba1, from Ba2, reflects: (1) the upgrade of the bank's BCA to ba1, from ba2, incorporating fundamental credit strengths that have remained resilient through economic cycles, a highly diversified earnings structure, both in terms of lines of business and revenues from operations abroad, and its disciplined risk appetite and risk management profile; and (2) our unchanged assumption of high government support to Itau Unibanco. For Itau Unibanco Holding, we also upgraded its long-term issuer to Ba2 from Ba3 and senior unsecured MTN rating to (P)Ba2 from (P)Ba3. The ratings assigned to Itau Unibanco Holding consider one notch of structural subordination from the ratings assigned to its operating company Itau Unibanco.

BANCO BRADESCO S.A. (Bradesco)

The upgrade of Bradesco's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2 reflects: (1) the upgrade of its BCA to ba1 from ba2, incorporating the bank's well-established participation in the credit and insurance segments in Brazil, sound liquidity and steady access to funding. These strengths are counterbalanced by problem loan metrics that remain high, while the bank maintains efforts to improve the quality of its loan book, and a capital position, according to our metric, that remains below that of its global peers; and (2) our unchanged assumption of high government support to the bank.

BANCO SANTANDER (BRASIL) S.A. (SANBR)

The upgrade of SANBR's long-term local- and foreign-currency deposit ratings to Baa3 from Ba1 reflects: (1) the upgrade of its BCA to ba1 from ba2, supported by its solid franchise in Brazil, business diversification, ample access to granular core deposits and a consistent cost discipline that has supported its good earnings generation capacity; (2) our unchanged assumption of a moderate probability of affiliate support from Banco Santander, S.A. (Spain) (A2 positive, baa1), resulting in one notch of uplift to an Adjusted BCA of baa3; and (3) our unchanged assumption of a high probability of government support, although this results in no uplift to deposit

ratings because SANBR's Adjusted BCA is one notch above Brazil's sovereign rating of Ba1.

BANCO NAC. DESENV. ECONOMICO E SOCIAL – BNDES (BNDES) AND BNDES PARTICIPAÇÕES S.A. – BNDESPAR (BNDESPAR)

The upgrade of BNDES' long-term local- and foreign-currency deposit ratings to Ba1 from Ba2, stems from: (1) the upgrade of BNDES' BCA to ba1 from ba2, reflecting the resilience of the bank's fundamental credit strength through different economic cycles, which is supported by strong asset quality metrics, robust capitalization, adequate liquidity position and its franchise as the largest development bank in Latin America; and (2) our unchanged assumption of the highest degree of support from the federal government to BNDES. The issuer rating assigned to its full subsidiary BNDESPAR was also upgraded to Ba1 from Ba2.

CAIXA ECONOMICA FEDERAL (Caixa)

We also upgraded Caixa's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2 reflecting our unchanged assumption of the highest degree of government support to the bank, considering its full government ownership as well as the government mandate assigned to Caixa as social housing bank in Brazil. In addition, we also upgraded Caixa's standalone BCA to ba2 from ba3, acknowledging the sustained improvement seen in the bank's creditworthiness over the past five years, with lower problem loan ratios consistently maintained below the system's average ratio, robust core capitalization and steadily high market share of savings deposits. As a result, Caixa's Ba1 deposit ratings incorporate one notch of uplift from its BCA of ba2.

BANCO DA AMAZONIA S.A. (Banco da Amazonia)

The upgrade to Ba1 from Ba2, of the long-term local- and foreign-currency deposit ratings assigned to Banco da Amazonia reflects: (1) the affirmation of its BCA as ba3, stemming from our view that it remains well positioned at its current level; and (2) our unchanged assumption of the highest degree of government support to the bank because it is wholly-owned by the federal government. As a result, its deposit ratings incorporate two notches of uplift from its BCA.

BANCO DO NORDESTE DO BRASIL S.A. (BNB)

The upgrade to Ba1 from Ba2, of the long-term local- and foreign-currency deposit ratings assigned to BNB incorporates: (1) the affirmation of its BCA as b1, stemming from our view that it remains well positioned at its current level; and (2) our unchanged assumption of the highest degree of government support to the bank because it is wholly-owned by the federal government. As a result, its deposit ratings incorporate three notches of uplift from its BCA.

BANCO BTG PACTUAL S.A. (BTG)

The upgrade to Ba1 from Ba2, of the long-term local- and foreign-currency deposit ratings assigned to BTG reflects: (1) the upgrade of the BCA to ba1 from ba2, incorporates BTG's large commercial and investment banking as well as strong financial advisory operation in Brazil, supported by a disciplined risk management that provides stability in revenues and supports capitalization; and (2) our unchanged assumption of moderate government support to the bank.

BANCO SAFRA S.A. (Safra)

We also upgraded Safra's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2 driven by: (1) the upgrade of its BCA to ba1 from ba2; reflecting the bank's well-established franchise and strong financial fundamentals, including a sound solvency profile and an earnings generating capacity that benefits from a diversified operation; and (2) our unchanged assumption of moderate government support to the bank.

BANCO CITIBANK S.A. (Citibank Brazil)

The affirmation of the Baa3 long-term local- and foreign-currency deposit ratings assigned to Citibank Brazil reflects: (1) the upgrade of its BCA to ba1 from ba2, reflecting the bank's strong franchise in the Brazilian corporate lending segment; (2) our unchanged assumption of a high probability of affiliate support from Citibank, N.A. (Aa3 stable, baa1), in the United States, resulting in one notch of uplift to an Adjusted BCA of baa3 to Citibank Brazil; and (3) our unchanged assumption of a low probability of government support.

BANCO COOPERATIVO SICREDI S.A. (Sicredi)

In upgrading Sicredi's long-term Corporate Family Rating (CFR) and local-currency issuer rating to Ba1 from Ba2, we took into consideration: (1) the upgrade of the bank's BCA to ba1 from ba2, reflecting Sicredi's long track record of superior asset quality metrics, adequate capitalization and robust earnings profile, which benefits from a granular and low-cost core deposit base; and (2) our unchanged assumption of a low probability of government support to Sicredi.

BANCO ABC BRASIL S.A. (BAB)

We also upgraded BAB's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2 as a result of: (1) the upgrade of its BCA to ba1 from ba2, incorporates the bank's solid financial fundamental and well-established wholesale franchise focused on large and upper-middle market companies, track-record of disciplined credit risk standards, buoyant profitability, diversified funding structure and capital replenishment capacity; and (2) our unchanged assumption of low government support to the bank, which, however, does not provide any uplift to BAB's deposit ratings.

BANCO DAYCOVAL S.A. (Daycoval)

The upgrade to Ba1 from Ba2, of the long-term local- and foreign-currency deposit ratings assigned to Daycoval reflects: (1) the upgrade of the bank's BCA to ba1 from ba2, incorporating its solid business franchise as a middle-market lender, supported by a disciplined business and risk profile, consistent capital replenishment and diversified funding mix, while partly offset by its reliance on institutional resources; and (2) our unchanged assumption of low government support to the bank, which, however, does not provide any uplift to Daycoval's deposit ratings.

NU FINANCEIRA S.A. – SCFI (Nubank) AND NU HOLDINGS LTD

In upgrading Nubank's BCA to ba1 from ba2, we acknowledge its significant business potential arising from its sizeable customer base and lean digital operation, solid capital position and improving earnings profile. The ba1 BCA assigned to Nubank also takes into account current challenges, including rising asset risks, as a result of strong growth in the credit card segment during period of high interest rates. In addition, the bank focuses on enhancing business diversification as well as funding mix and tenor, in order to support future earnings generation. Despite that, Nubank will likely face upward pressure on its cost structure as result of the highly competitive retail banking segment in Brazil. The long-term issuer rating assigned to Nu Holdings Ltd considers one notch of structural subordination from the ratings assigned to its operating company Nubank.

BANCO BOCOM BBM S.A. (BOCOM BBM) AND BANCO MIZUHO DO BRASIL S.A. (Mizuho Brazil)

The affirmation of the Baa3 long-term local- and foreign-currency deposit ratings assigned to BOCOM BBM and Mizuho Brazil incorporates: (1) the affirmation of their standalone BCAs, which remain well positioned at ba2 and ba3, respectively; (2) our unchanged assumption of a very high probability of affiliate support from Bank of Communications Co., Ltd and Mizuho Bank, Ltd., respectively, resulting in two notches, for BOCOM BBM, and three notches, for Mizuho Brazil, of uplift to their Adjusted BCAs of baa3; and (3) our unchanged assumption of a low probability of government support to both banks.

B3 S.A. – BRASIL, BOLSA, BALCAO (B3)

We upgraded all ratings assigned to B3, including its long-term CFR to Baa3 from Ba1, long-term local-currency issuer rating to Baa3 from Ba1, and long-term foreign-currency senior unsecured debt rating to Baa3 from Ba1. These ratings are positioned one notch above Brazil's Ba1 sovereign rating because of B3's (1) proven track record of strong financial performance through interest rate and economic cycles, (2) systemically relevant role as Brazil's financial market infrastructure company and (3) strong linkage with the government, which stems from significant investment of its cash position and most of its settlement funds, used for protection

against counterparty default risk, into Brazilian sovereign bonds.

As CFRs are not typically assigned at an investment grade level, subsequent to today's action, we will withdraw B3's CFR rating.

We have decided to withdraw the rating(s) for our own business reasons. Please refer to Moody's Ratings' Withdrawal of Credit Ratings Policy, available on our website, <https://ratings.moodys.com>, for more information.

XP INC. (XP)

The upgrade of XP's ratings, including its long-term CFR to Ba1 from Ba2, and long-term foreign-currency backed senior unsecured debt rating to Ba1 from Ba2, reflects the company's robust creditworthiness, which points to a standalone financial profile at the same level as Brazil's sovereign bond rating. XP's standalone assessment remains at the same level as Brazil's sovereign rating because of the strong link between the firm's creditworthiness and the Brazilian sovereign risk, driven by the concentration of XP's market-making activities in Brazilian debt securities and the geographical concentration of its operations.

The debt ratings assigned to XP incorporates irrevocable and unconditional guarantee by XP Investimentos S.A., an intermediate holding company that houses the vast majority of XP's operations. We consider that XP's creditors are structurally subordinated to its main market-making, broker-dealer operating company's (XP CCTVM S.A.) sizeable debt-like obligations. However, the cash flows generated by XP's diverse other activities are of sufficient size to offset this structural subordination in its capital structure, and accordingly the ratings assigned to XP's proposed debt instruments are aligned with its CFR.

BANCO MODAL S.A. (Modal)

The upgrade of Modal's long-term local- and foreign-currency deposit ratings to Ba1 from Ba2, reflects: (1) the affirmation of the bank's ba3 standalone BCA, which remains well positioned at its current level; (2) our unchanged assumption of a high probability of affiliate support from XP Inc., resulting in a two-notch uplift to an Adjusted BCA of ba1; and (3) our unchanged assumption of a low probability of government support.

OUTLOOKS

The positive outlook on the long-term deposit ratings and/or long-term senior unsecured debt ratings, as well as long-term CFR and long-term issuer ratings (where applicable) of BB, BNDES, Itau Unibanco, Bradesco, SANBR, BTG, Safra, XP, Sicredi, Citibank Brazil, BAB, Daycoval, and associated entities, reflects standalone financial profiles that are positioned at the same level or above Brazil's Ba1 sovereign rating. These entities' financial profiles incorporate robust and consistent credit risk frameworks that have weathered different economic cycles over the past ten years.

For BB, BNDES, Itau Unibanco, Bradesco and SANBR, the positive outlook also derives from the positive outlook on Brazil's sovereign debt rating, based on our assessment of high government support.

The positive outlook on the long-term deposit ratings assigned to Caixa, Banco da Amazonia, and BNB are driven by the positive outlook on Brazil's sovereign debt rating.

The positive outlook on B3 is in line with the positive outlook on Brazil's sovereign rating, reflecting its dominant position in the local market and systemic importance as an integrated exchange, depository, and clearing, as well as its role as a central counterparty via its clearing houses.

The stable outlook on the long-term deposit ratings of Nubank reflects a financial profile that is well-positioned at its current level of ba1, at the same level as its assigned standalone BCA.

The stable outlook on the long-term deposit ratings of BOCOM BBM and Mizuho Brazil reflects their Adjusted BCAs of baa3 that benefit from affiliate support and are positioned one notch above the sovereign rating of Ba1. As such, a potential one-notch upgrade of the sovereign rating would not result in an upgrade of the banks' deposit ratings.

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

The deposit ratings, senior unsecured debt and MTN program ratings, as well as issuer ratings (where applicable), assigned to BB, BNDES, Itau Unibanco, Bradesco, BTG, Caixa, Banco da Amazonia and BNB, including associated entities, would face positive pressure as a result of an upgrade of Brazil's sovereign ratings. Ratings of Itau Unibanco, BB, BTG, XP, and associated entities, would also face positive pressure coming from their standalone financial profiles.

An upgrade of B3's ratings is unlikely absent an upgrade in Brazil's sovereign rating, even in the event of a material improvement in the company's financial fundamentals. This is because B3's ratings are currently constrained at one notch above Brazil's sovereign bond rating, considering the company's strong linkage with the government creditworthiness.

For Safra, BAB, Daycoval, Nubank, Citibank Brazil, BOCOM BBM and Mizuho Brazil, their deposit ratings, senior unsecured debt and MTN program ratings, and issuer ratings (where applicable), could be upgraded following an upgrade of their standalone BCAs. This, in turn, would reflect improvement of their financial fundamentals beyond our expectations, more specifically, if the banks were to improve their asset risk profiles, sustain strong profitability metrics leading to sound organic capital generation capacity, while maintaining comfortable liquidity and

funding positions.

Conversely, downward pressure on these financial institutions' standalone credit assessments and/or ratings, including deposit, senior unsecured debt and MTN program ratings, and issuer ratings (where applicable), would derive from a downgrade of Brazil's sovereign ratings, although highly unlikely at this time considering the positive outlook on the rating.

B3's ratings could be downgraded as a result of a downgrade of Brazil's sovereign rating. A material deterioration of the company's financial fundamentals and, in turn, of its standalone credit profile could pressure B3's ratings downward. However, given the current strength of B3's standalone credit profile, such deterioration would need to be quite material, before it created downward pressure on B3's ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in rating Itau Unibanco Holding S.A., Itau Unibanco Holding S.A. (Cayman Islands), Itau Unibanco S.A. (Cayman Islands), Itau Unibanco S.A., Banco Santander (Brasil) S.A., Banco Santander (Brasil) S.A. - Cayman Br, Banco Bradesco S.A., Banco Bradesco S.A., Grand Cayman Branch, Banco do Brasil S.A., Banco Do Brasil S.A. (Cayman), Banco Nac. Desenv. Economico e Social - BNDES, BNDES Participacoes S.A. - BNDESPAR, Banco da Amazonia S.A., Banco do Nordeste do Brasil S.A., Caixa Economica Federal, Banco BTG Pactual S.A., Banco BTG Pactual S.A., Grand Cayman Branch, Banco BTG Pactual S.A., Luxembourg Branch, Banco Cooperativo Sicredi S.A., Banco Safra S.A., Banco Safra S.A. (Cayman Branch), Banco ABC Brasil S.A., Banco Daycoval S.A., Nu Holdings Ltd, Nu Financeira S.A. - SCFI, Banco Modal S.A., Banco BOCOM BBM S.A., Banco Citibank S.A. and Banco Mizuho do Brasil S.A. was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. The principal methodology used in rating B3 S.A.- Brasil, Bolsa, Balcão was Securities Industry Service Providers published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/415018>. The principal methodology used in rating XP Inc. was Securities Industry Market Makers published in June 2024 and available at <https://ratings.moodys.com/rmc-documents/423537>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL496779 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and

provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
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