FitchRatings

Banks
Wholesale Commercial Banks
Brazil

Banco Industrial do Brasil S.A.

Key Rating Drivers

IDRs Driven by VR: Banco Industrial do Brasil S.A.'s (BIB) Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR), reflecting a niche lending model focused on small and medium-sized enterprises (SMEs) with a conservative approach, that ensures stability. However, its small franchise and limited pricing power against larger market players offset these strengths. National Ratings highlight stability in risk management and earnings resilience.

Consistent and Simple Business Model: BIB's 'b+' business profile aligns with the implied factor category of 'b' for banks of small size and less diversified revenue streams. Strong borrower relationships and stable management offer moderate advantages.

Prudent Lending Practices: BIB's risk profile, sensitive to SME exposure (83% of loans as of 3Q24), is rated 'bb', two notches above its business profile, due to prudent underwriting standards, including conservative loan-to-value ratios and high collateralization. These practices ensure above-average credit stability and lower losses than peers, with risk management matching its size.

Stable Loan Performance: BIB's asset quality outperforms peers, with minimal losses supporting its 'bb' score. The impaired loan ratio rose to 3.2% in 3Q24 from 2.5% in 4Q23 due to one-off inflows and modest growth. Despite this, it compares well with the industry average. The ratio is expected to return to about 2.5% as these are written off.

Resilient Profitability: BIB's lean costs and stable asset quality support a 'bb-' score. Reliance on net interest income (94% in 2023) limits diversification, but profitability ratios are consistently less volatile than those of peers given sound asset-quality. The operating profit/RWA of 2.3%, compares well with rating peers and is expected to remain stable due to manageable credit losses.

Appropriate Capital Buffers: BIB's CET1 ratio was 13.8% in 3Q24, above requirements and peers. It improved from 12.7% at 4Q23 due to adequate earnings and lower expansion. Tier 2 debt raises the total capital ratio to 18.0%, supporting a 'bb-' assessment.

Adequate Liquidity: BIB's 'bb-' rating reflects primarily solid liquidity management. Despite this, the funding base is less developed than higher rated peers but funding access has been improving. The top 20 depositors make up 55% of deposits at 3Q24 (39% excluding brokerage platforms). High-quality liquid assets are 1.2 times equity, supported by effective management and short-term SME lending receivables.

Rating Sensitivities

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

The VR could be downgraded if BIB's financial profile materially weakens. This would require a durable contraction of its operating profit/RWAs and CET1 ratios to below 1.25% and 10%, respectively, combined with material deterioration of asset quality metrics.

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

An upgrade could occur in the long term due to a strengthening of the market position in the bank's core businesses which in turn leads to a substantial improvement in its total operating income (TOI) level; while the bank increase diversification in its funding base.

Ratings

Foreign Currency

Long-Term IDR	BB-
Short-Term IDR	B

Local Currency

Long-Term IDR	BB-
Short-Term IDR	B
Viability Rating	bb-
Government Support Rating	ns

National

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

Sovereign Risk (Brazil)

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (March 2024)
National Scale Rating Criteria (December 2020)
Metodologia de Ratings em escala Nacional (December 2020)
Metodologia de Rating de Bancos (March 2024)

Related Research

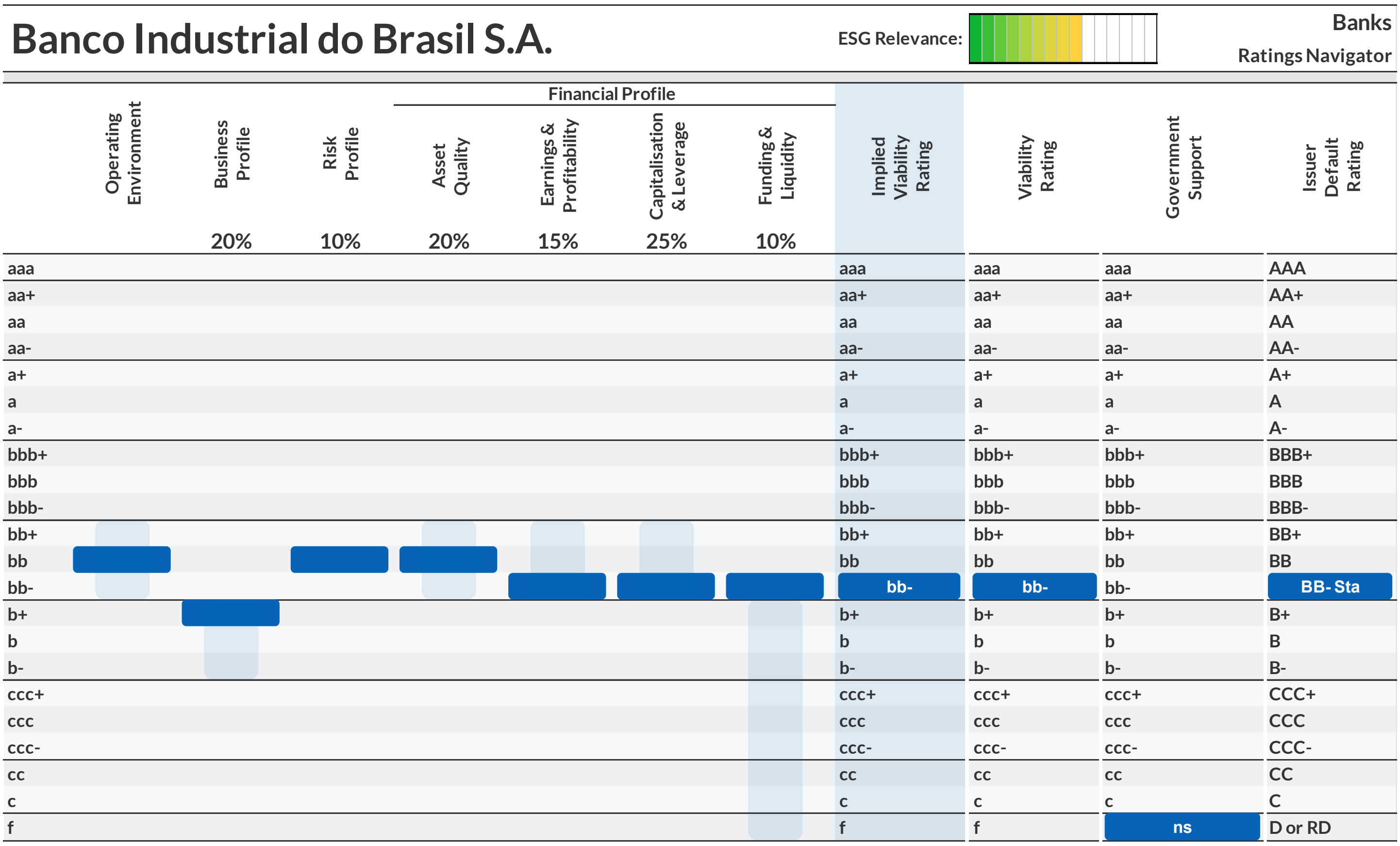
Fitch Publishes Banco Industrial do Brasil's IDR at 'BB-'; Outlook Stable (January 2025)

Analysts

Raphael Nascimento
+55 11 3957 3680
raphael.nascimento@fitchratings.com

Jean Lopes
+55 21 4503 2614
jean.lopes@fitchratings.com

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Company Summary and Key Qualitative Factors

Business Profile

Focused Stability in SME Lending

BIB, a midsized, privately-owned bank in Brazil, ranks 112th by total assets, with BRL7.1 billion as of end-September 2024. Established in 1994, BIB has remained privately held, focusing on collateralized lending to SMEs. This niche focus underscores its modest size and a less diversified but stable revenue base compared to higher-rated peers.

Historically, BIB's business profile and strategic objectives have shown stability, with minimal changes in its revenue model and financial metrics. Primarily serving midsized enterprises, which account for 83% of its gross loans, BIB complements this with payroll-discounted lending to retirees, pensioners, and public employees (17%).

The bank targets enterprises with annual revenues above BRL250 million, offering products like working capital loans, asset purchases, trade financing and National Bank for Economic and Social Development (BNDES) on-lending. It strategically avoids being the main lender to prevent single-name concentrations. The secured payroll lending business complements its operations by catering to public and private sector employees.

Mr. Carlos Alberto Mansur fully owns BIB and serves as both CEO and chairman, BIB's corporate governance is considered adequate given its business complexity and consistent practices across business cycles. BIB's conservative strategy focuses on high capital and liquidity buffers and cautious lending, thereby supporting its financial stability.

Its simple organisational structure includes two small operating companies for operational support. KPMG audits BIB, consistently providing unqualified opinions.

Risk Profile

Pulverized Credit Risk and Adequate Collateralization

BIB manages its risk management framework effectively, supporting below-average credit losses over multiple cycles. The bank's strict underwriting standards and high levels of collateralization maintain a healthy risk profile despite its SME lending concentration.

BIB manages credit risk through diversification by single borrowers and prudent loan-to-value ratios. The SME portfolio is predominantly short-term and well-secured, with a 90-day non-performing loan ratio of 1.7%, significantly lower than the SME industry average of 4.5%. Collaterals cover 113% of gross loans, including receivables, BNDES guarantees, real estate, and cash. The bank's 20 largest exposures account for 35% of SME loans, but payroll lending further diversifies risk. The portfolio's short-term nature allows flexibility in repricing and restructuring, with a well-balanced sectorial distribution across industries.

The payroll lending business offers complementary risk diversification, historically accounting for approximately 15-20% of loans, primarily focused on public sector employees in Brazil's north and northeast regions. The bank's agreements with 117 payment agents, mainly in the north and northeast, allow borrowers to access 35-45% of borrowers' monthly income.

Non-lending assets make up 25% of total assets, including cash, sovereign bonds, and repurchase transactions with government-related bonds, ensuring low risk. Corporate fixed-income instruments complement the loan book, with 75% of securities classified as fair value through other comprehensive income (OCI) and minimal unrealised losses under amortised costs.

BIB's market risk exposure is limited to 2.3% of total risk-weighted assets. The treasury desk focuses on asset-liability management rather than profit generation, using value at risk (VaR) to measure market risks.

Financial Profile

Asset Quality

BIB's asset quality metrics outperform its peers, with minimal losses across the cycles, supporting its 'bb' asset quality rating. The impaired loan ratio rose to 3.2% at the end of 3Q24 from 2.5% at the end of 4Q23, due to some one-off inflows related to industry-wide exposures and modest loan growth. Despite the increase, the ratio remains aligned with the industry average. We expect the ratio to gradually return to historical levels of around 2.5% once these are written off, given the bank's relatively low proportion of moderate-risk borrowers.

Notably, 90-day NPLs remain below 2%, well below the SME lending sector average of 4.5%. Loan loss reserve coverage of impaired loans (54.7% at the end of 3Q24) is adequate, given the loan collateralization and loan mix, supporting our view. Loan collateralization exceeds loan values, covering about 117% of gross loans, while the bank's secured exposure in payroll lending provides some risk diversification.

Earnings and Profitability

BIB's lean cost structure and stable asset quality significantly drive its financial performance, which are key contributors to its earnings. These factors support our profitability factor score of 'bb-'. While BIB's revenue streams are less diversified than those of larger domestic banks, with a heavy reliance on net interest income, its profitability ratios have demonstrated stability across different interest rate cycles.

This stability is evident in BIB's four-year average operating profit relative to risk-weighted assets (RWA) of 2.3%, which compares favorably to its peer group. BIB faced its weakest year in 2017 during the Lava-Jato crisis, yet stronger than industry average; however, its core profitability ratio has remained stable over the past decade. The bank's net interest margin (NIM) levels are modest, as it is typically a price-taker in lending and funding. Despite this, BIB's risk-adjusted margins are adequate, contributing to resilient earnings.

In 9M24, BIB's core profitability aligned closely with 2023, achieving an operating profit to RWA ratio of 2.2%. The cost of risk (loan impairment charges to average gross loans) increased due to some one-off events but remained below domestic and peer averages at 1.4% in 9M24. Although the gross loans balance at end-3Q24 remained steady over the past two years, BIB's short-term lending operations and high level of revolvency supported revenue stability. Consequently, operating income rose approximately 14% year-over-year in 9M24 and 15% in FY23. Additionally, the short-term profile of BIB's receivables allows for fast repricing amid rising SELIC rates.

We anticipate earnings to remain broadly stable through 2025, supported by manageable credit losses and default rates.

Capitalisation and Leverage

BIB maintains its capitalization levels with moderate buffers above regulatory minimums, deemed adequate considering the bank's well-managed risk profile, asset quality and internal capital generation. BIB consistently generates around 160 basis points of internal capital before dividends annually, as evidenced by a four-year average net income to RWA ratio of 1.61%.

At the end of 3Q24, the Common Equity Tier 1 (CET1) to Risk-Weighted Assets (RWA) ratio was 13.8%, well above minimum requirements of 8.5% favorable comparisons with similarly rated peers. The latest CET1 ratio improved from 12.7% at the end of 4Q23 reflecting adequate earnings retention and controlled balance sheet expansion. In 2023, BIB issued Tier 2 subordinated debt, enhancing its total regulatory capital ratio to 18.0%. This issuance provides greater capital flexibility and supports our assessment of BIB's capitalization and leverage.

The bank's strong asset quality and sufficient coverage of impaired loans result in low equity encumbrance by unreserved impaired loans, around 4% in 3Q24.

Funding and Liquidity

Fitch Ratings assesses BIB's Funding & Liquidity at 'bb-' due to its conservative liquidity management and moderate improvements in its funding structure, which have enhanced market access, although funding franchise is less developed than those of larger Fitch-rated peers.

The loan-to-deposit (LtD) ratio was 205% at end-3Q24, improving to 188% when including Letras de Credito do Agronegocio (LCA) and Letras de Credito Imobiliarias (LCI) as time deposits. As of 3Q24, the top 20 depositors accounted for 55% of total deposits, or 39% when excluding brokerage platforms.

BIB has diversified its funding mix over the years, including trade finance lines with foreign banks and international funding from multilateral entities. The main sources of funding are customer deposits and LCA/LCI (44%), complemented by long-term domestic senior unsecured funding (23%), interbank (14%) and international funding (15%).

BIB holds high-quality liquid assets at approximately 1.2 times its equity and 19% of deposits. BIB's liquidity profile also benefits from effective asset-liability management and the short-term profile of SME lending receivables, with an average duration of about 248 days.

Financials

Summary Financials

	September30, 2024		December 31, 2023	December 31, 2022	December 31, 2021
	9 Months - 3rd Quarter	9 Months - 3rd Quarter	Year End	Year End	Year End
	(USDm)	(BRLm)	(BRLm)	(BRLm)	(BRLm)
	Reviewed - Unqualified	Reviewed - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	51	280.4	339.1	292.0	278.4
Net fees and commissions	4	24.5	31.7	25.1	18.1
Other operating income	1	7.3	-5.6	3.7	-6.0
Total operating income	57	312.2	365.2	320.8	290.5
Operating costs	31	167.1	189.8	175.7	144.3
Pre-impairment operating profit	27	145.1	175.4	145.1	146.2
Loan and other impairment charges	10	52.9	38.9	25.7	20.5
Operating profit	17	92.2	136.5	119.4	125.7
Tax	4	22.5	30.4	35.4	51.2
Net income	13	69.7	106.1	92.8	74.5
Other comprehensive income	0	-0.2	4.1	-3.6	-1.7
Fitch comprehensive income	13	69.5	110.2	89.2	72.8
Summary Balance Sheet					
Assets					
Gross loans	932	5,077.5	5,194.0	4,951.0	4,672.1
- Of which impaired	29	159.9	132.1	112.8	86.4
Loan loss allowances	16	87.5	64.5	50.3	30.6
Net loans	916	4,990.0	5,129.5	4,900.7	4,641.5
Interbank	31	171.1	155.5	90.3	60.8
Derivatives	1	3.6	6.2	4.5	0.3
Other securities and earning assets	270	1,471.3	1,040.8	796.3	949.5
Total earning assets	1,218	6,636.0	6,332.0	5,791.8	5,652.1
Cash and due from banks	14	73.7	41.5	64.0	94.4
Other assets	81	443.1	276.4	341.3	367.3
Total assets	1,313	7,152.8	6,649.9	6,197.1	6,113.8
Liabilities					
Customer deposits	453	2,470.2	2,111.8	1,626.9	1,973.2
Interbank and other short-term funding	167	912.4	1,114.0	583.6	470.8
Other long-term funding	508	2,766.1	2,452.6	3,074.8	2,845.2
Trading liabilities and derivatives	0	2.6	12.9	2.1	0.6
Total funding and derivatives	1,129	6,151.3	5,691.3	5,287.4	5,289.8
Other liabilities	41	225.5	215.3	218.1	178.1
Total equity	142	776.0	743.3	691.6	645.9
Total liabilities and equity	1,313	7,152.8	6,649.9	6,197.1	6,113.8
Exchange rate		USD1 = BRL5.4475	USD1 = BRL4.9186	USD1 = BRL5.1439	USD1 = BRL5.6904

Source: Fitch Ratings

Key Ratios

	September 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.2	2.3	2.3	2.7
Net interest income/average earning assets	5.8	5.8	5.2	5.5
Non-interest expense/gross revenue	54.4	52.7	55.4	49.8
Net income/average equity	12.3	14.9	13.9	12.0
Asset quality				
Impaired loans ratio	3.2	2.5	2.3	1.9
Growth in gross loans	-2.2	4.9	6.0	16.2
Loan loss allowances/impaired loans	54.7	48.8	44.6	35.4
Loan impairment charges/average gross loans	1.4	0.8	0.6	0.5
Capitalisation				
Common equity Tier 1 ratio	13.8	12.7	12.5	13.5
Tangible common equity/tangible assets	9.8	10.2	10.2	9.7
Funding and liquidity				
Gross loans/customer deposits	205.6	246.0	304.3	236.8
Customer deposits/total non-equity funding	40.2	37.2	30.8	37.3

Source: Fitch Ratings

Environmental, Social and Governance Considerations

FitchRatings **Banco Industrial do Brasil S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Banco Industrial do Brasil S.A. has 5 ESG potential rating drivers • Banco Industrial do Brasil S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. • Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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