FitchRatings

RATING ACTION COMMENTARY

Fitch Publishes Banco Industrial do Brasil´s IDR at 'BB-'; Outlook Stable

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Fitch Ratings - São Paulo - 29 Jan 2025: Fitch Ratings has published Banco Industrial do Brasil S.A.'s (BIB) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB-', Short-Term Foreign- and Local-Currency IDRs at 'B' and a Viability Rating (VR) of 'bb-'. In addition, Fitch has published BIB's 'no support' (ns) Government Support Rating (GSR). The Rating Outlook for the Long-Term IDRs is Stable.

At the same time, Fitch has published the Long- and Short-Term National Ratings of BIB at 'AA(bra)' and 'F1+(bra)', respectively. The Rating Outlook for the Long-Term National Rating is Stable.

KEY RATING DRIVERS

IDRs Driven by VR: BIB's IDRs are driven by its VR, which is in line with implied VR. The rating reflects a niche business model and risk profile that is driven by small and medium-sized enterprise (SME) lending, but has a conservative lending approach, resulting in a stable financial profile. However, the bank's small franchise and limited pricing power compared with the larger lenders and depositors in the market offset these strengths.

BIB's National Ratings reflect Fitch's assessment of the bank's demonstrated stability in risk management, asset quality, and earnings resilience compared with other Brazilian issuers, as tested across multiple economic cycles.

Consistent and Simple Business Model: BIB's business profile score of 'b+' is constrained, aligning with the implied factor category of 'b' for banks of moderate size in terms of total operating income (TOI) and business diversification. The bank's with a four-year average TOI was $58 million. At the end of 3Q24, BIB reported gross loans of $932 million (BRL5.1 billion), primarily from SME and payroll lending. Close borrower relationships and a capable, stable management team offer moderate competitive advantages, partially compensating for its limited franchise.

Prudent Lending Practices: BIB's risk profile is particularly sensitive to its exposure to SME borrowers (around 83% of loans at the end of 3Q24), which are more susceptible to economic cycles. However, Fitch assesses BIB's risk profile as 'bb'. This rating is two notches higher than the business profile score, reflecting the company's prudent loan-to-value ratios and risk controls.

These factors result in above-average credit stability and lower credit losses than closest peers, even in challenging operating environments. The bank's market risk management is commensurate with its size.

Stable Loan Performance: 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.

Resilient Profitability: BIB's lean cost structure and stable asset quality are key earnings drivers, supporting our profitability factor score of 'bb-'. Revenue streams are less diversified than larger domestic banks due to reliance on net interest income (NII, 94% in 2023), and constrain the assessment at the current level.

However, profitability ratios have been less volatile over interest rate cycles compared with that of its peers. BIB's four-year average operating profit/risk-weighted assets (RWA) of 2.3% compares favorably with its peer group and we expect it to remain broadly stable over 2025. Credit losses and default rates are expected to remain manageable.

Appropriate Capital Buffers: The Common Equity Tier 1 (CET1) to RWA ratio was 13.8% at the end of 3Q24, providing adequate buffers above regulatory requirements and compares well with similarly rated peers. Reflecting adequate internal capital generation and lower balance sheet expansion, the core ratio improved from 12.7% at the end of 4Q23.

The issuance of Tier 2 debt in 2023 in the form of subordinated debt, which is included in BIB's total regulatory capital ratio of 18.0%, provides greater capital flexibility and also supports our 'bb-' assessment of BIB's capitalization and leverage. Our assessment of BIB's capital also considers the bank's low capital base, which makes it more vulnerable to event risk.

Adequate Liquidity but Concentrated Funding Base: Fitch assesses BIB's Funding & Liquidity as 'bb-', primarily to reflect conservative liquidity management and the moderate improvements in its funding structure. These enhancements have resulted in better market access. However, the bank's funding franchise remains less developed than larger Fitch-rated peers, and some single-name concentration risks persist.

BIB's funding structure is concentrated, with the top 20 depositors representing 55% of total deposits as of 3Q24 (around 39% excluding brokerage platforms). The bank maintains high-quality liquid assets at around 1.2 times its equity and 19% of deposits in 3Q24. This strong liquidity position is benefits from effective asset-liability management and the short-term profile of SME lending receivables with an average duration of about 248 days.

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;

-- The National Ratings are sensitive to a weakening of the bank's or group's creditworthiness relative to other Brazilian issuers.

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

-- An upgrade could occur in the long term if the bank strengthens its the market position in its core businesses, leading to a substantial improvement in its TOI, and increases diversification in its funding base.

-- The National Ratings are sensitive to a change of the bank's creditworthiness relative to other Brazilian issuers.

Government Support Rating

The BIB´s GSR of "No Support" (ns) indicates that there is no reasonable expectation of support being provided by the government.

Government Support Rating

BIB's GSR of 'ns' is sensitive to changes in Fitch's assessment about the ability and/or propensity of the sovereign to provide timely support to the bank, and would only be likely to occur with a significant increase in the bank's systemic importance.

DATE OF RELEVANT COMMITTEE

14 January 2025

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.

ESG CONSIDERATIONS

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 Industrial do Brasil S.A.	LT IDR	BB- Rating Outlook Stable	WD
	Publish		

	ST IDR	B	Publish	WD
	LC LT IDR	BB- Rating Outlook Stable	Publish	WD
	LC ST IDR	B	Publish	WD
	Natl LT	AA(bra) Rating Outlook Stable	Publish	WD(bra)
	Natl ST	F1+(bra)	Publish	WD(bra)
	Viability	bb-	Publish	WD
	Government Support	ns	Publish	

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodologia de Ratings em Escala Nacional (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

Metodologia de Rating de Bancos (pub. 15 Mar 2024)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco Industrial do Brasil S.A.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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