

Research Update:

BRB - Banco de Brasilia 'B+/B', 'brAA/brA-1+' Ratings Still On Watch Negative Pending Audit Completion

September 10, 2019

Overview

- Amid the "Operation Circus Maximus" corruption probe in Brazil, the new management of BRB has hired an audit firm to investigate the extent of the damages caused by the alleged corruption scheme.
- The audit is in its final stage and no additional concerns have been raised so far, which prompted the publication of the bank's financial statements that had previously been suspended. Nevertheless, given that the audit and the corruption investigation are still ongoing, the possible effects on the financial statements of BRB are still not fully clear.
- Therefore, we're keeping the 'B+/B' and 'brAA/brA-1+' ratings on CreditWatch with negative implications. We expect to resolve the CreditWatch in the next 90 days, once the forensic audit is concluded and potential financial impacts are clearer.

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Rating Action

On Sept. 10, 2019, S&P Global Ratings kept its global scale 'B+/B' and national scale 'brAA/brA-1+' ratings on BRB – Banco de Brasília S.A. (BRB) on CreditWatch negative.

Rationale

We're maintaining the ratings on CreditWatch negative because the audit to investigate potential wrongdoings in the bank's processes and operations hasn't been completed yet.

After Brazil's Federal Police launched Operation Circus Maximus, BRB's new management hired an auditing company in April 2019 to investigate the extent of the damages caused by the alleged corruption scheme. As the investigation was being carried out, the publication of the bank's financial statements for fourth quarter 2018 and first quarter 2019 were temporarily suspended. The audit is currently in its final stage and we expect it to conclude at the end of this October. So

far, the findings haven't raised significant governance concerns and no additional provisions have been needed, which prompted the publication of the bank's financial statements that had been suspended, together with its second quarter 2019 financials, which reported sound profitability.

Nevertheless, given that the audit and Operation Circus Maximus are ongoing, the possible effects on BRB's financial statements are still not fully clear. In addition, although BRB's new management has been carrying out initiatives to enhance the bank's internal controls and establish specific governance indicators and goals, we still can't rule out the likelihood of new findings that could expose further governance issues at the bank. Finally, we still need more clarity on whether or not compensation to investors or regulatory fines could lead to a relevant impact on the bank's earnings.

CreditWatch

We expect to resolve the CreditWatch placement as soon as the audit is concluded and we have more information on how the corruption probe may affect the bank. We could downgrade BRB if the results of the investigation erode its earnings or expose significant governance issues. Alternatively, we would likely affirm the ratings if findings from the investigations result in no or limited financial impact to the bank, and if it doesn't indicate structural governance issues.

Ratings Score Snapshot

Issuer credit rating B+/Watch Neg/B

SACP bb-

Anchor bb+

Business position Weak (-2)

Capital and earnings Moderate (0)

Risk position Adequate (0)

Funding and liquidity Average and Adequate (0)

Support 0

GRE support 0

Group support 0

Sovereign support 0

Additional factors 0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- BRB - Banco de Brasilia 'B+/B', 'brAA/brA-1+' Ratings Placed On CreditWatch Negative Following Corruption Investigations, Feb. 19, 2019

Ratings List

Ratings Affirmed

BRB - Banco de Brasilia S.A.

Issuer Credit Rating

Global Scale B+/Watch Neg/B

Brazil National Scale brAA/Watch Neg/brA-1+

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