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Research Update:

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

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Overview

- On Jan. 29, 2019, Brazil's Federal Police launched "Operation Circus Maximus," which has investigated an alleged criminal group at BRB. This group, along with business owners and financial operators, is believed to have taken bribes since 2014 in exchange for project disbursements.
- In our view, the investigation raises concerns about BRB's corporate governance. Additionally, it's unclear at this point whether any financial losses from fraudulent investment decisions could significantly affect the bank's earnings.
- We're placing our 'B+/B' and 'brAA/brA-1+' ratings on BRB on CreditWatch with negative implications.
- We expect to resolve the CreditWatch placement as soon as more information is available to assess how those developments may affect the bank's reputation, business prospects, and bottom-line results.

Rating Action

On Feb. 19, 2019, S&P Global Ratings placed its global scale 'B+/B' and national scale 'brAA/brA-1+' ratings on BRB - Banco de Brasília S.A. (BRB) on CreditWatch with negative implications.

Rationale

The CreditWatch placement reflects potential governance issues raised by "Operation Circus Maximus," which has been investigating an alleged criminal group at BRB that may have taken bribes since 2014 in exchange for project disbursements using resources from the bank and institutional investors. The CreditWatch placement also reflects the potential reputational issues and financial obligations that may emerge to compensate for investors' losses.

According to the public prosecutor's office, losses stemming from fraudulent investment decisions may reach R\$348 million. This amount accounts for exposures from the bank's asset manager unit, BRB DTVM, and institutional investors that own shares of funds that BRB DTVM manages. Although the investments under investigation are secured by real estate assets, and the bank's direct exposure is small and has already been fully provisioned, we

believe that investors could eventually seek compensation for the potential damages, which could become a significant liability for the bank. Moreover, any fines imposed could eventually hurt BRB's results.

In our view, the investigation raises concerns regarding BRB's corporate governance. The investigation named the former BRB CEO and other senior executives as complicit to the scheme. The bank promptly removed those executives from their positions following their implication in the probe, and accelerated the already scheduled replacements for those positions. We view positively BRB's new administration's intent to strengthen the bank's governance and to hire a forensic audit company to investigate the extend of the damages caused by the alleged corruption scheme. Additionally, BRB has a stable funding base, in our view, which reduces the risk that reputational issues could suddenly weaken its liquidity. Nevertheless, it's still unclear whether or not, and to what extent, the alleged corruption scheme could affect the bank's reputation and, consequently, its operations.

CreditWatch

We expect to resolve the CreditWatch placement as soon as we have more information on how those developments may affect the bank. We could downgrade BRB if the results of the investigation significantly affect its capital and earnings or its business and funding prospects. We will also evaluate if the execution of the bank's action plan will result in material improvements in governance that could prevent further financial losses and reputational damage.

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 | -1 |
| Group support | 0 |
| Sovereign support | 0 |
| Additional factors | 0 |

Related Criteria

- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Placed On CreditWatch

| | To | From |
|------------------------------|----------------------|----------------------|
| BRB - Banco de Brasilia S.A. | | |
| Issuer Credit Rating | | |
| Global Scale | B+/Watch Neg/B | B+/Positive/B |
| Brazil National Scale | brAA/Watch Neg/brA-+ | brAA/Positive/brA-1+ |

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