

## CREDIT OPINION

31 August 2023

### Update



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### RATINGS

#### Banco Cooperativo Sicredi S.A.

Domicile	Porto Alegre, Rio Grande do Sul, Brazil
Long Term CRR	Ba1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Banco Cooperativo Sicredi S.A.

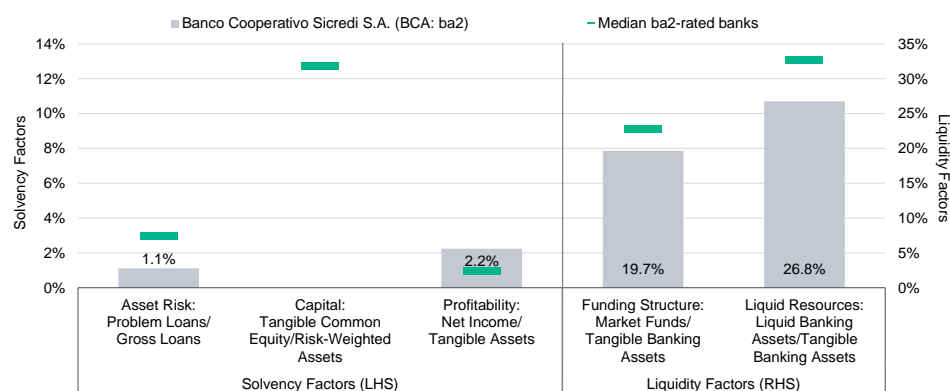
### Update to credit analysis

### Summary

Moody's assigns a corporate family rating of Ba2 to [Banco Cooperativo Sicredi S.A.](#) (Banco Sicredi), which incorporates the cooperative system's consistently low asset risk, strong capitalization and profitability, as well as the bank's granular funding structure that has supported Sicredi's rapid loan growth. Sicredi's ratings also reflect the complexities involved in operating a large federated cooperative system and its concentrated risk exposure to the agricultural industry. Moody's assesses the Sicredi group as if it operated as a single entity, taking into consideration its strategic and operational cohesion, common policies for credit risk, liquidity risk and capitalization; as well as the principle of solidarity within the group. Banco Sicredi is the central entity of Sistema de Crédito Cooperativo Sicredi (Sicredi Group). As of December 2022, it congregated more than 100 financial cooperatives with around 6.4 million associates in 26 Brazilian states plus the Federal District, and offered traditional financial services to associates (such as lending, credit cards, insurance and investments) under the same brand and common risk policies.

Exhibit 1

### Rating Scorecard - Key financial ratios As of December 2022



For the asset risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data, if available and the ratio used is the weaker of the average and the latest period. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.

Source: Moody's Financial Metrics

## Credit strengths

- » Strong capitalization, both at the combined group and at each individual entity of the Sicredi network
- » Resilient profitability, largely driven by high margin lending operations and low cost of funding
- » Granular funding structure, largely composed of cooperative associates' deposits

## Credit challenges

- » Asset risk and profitability pressures due to the challenging operating environment in Brazil despite conservative risk management and below system average problem loans
- » Intrinsic limitations to franchise business flexibility and growth, due to cooperative model

## Rating outlook

The outlook on all ratings is stable, in line with the outlook on Brazil's sovereign rating.

## Factors that could lead to an upgrade

- » Sicredi's BCA is constrained by Brazil's sovereign rating and as result it would only face upward pressure in the event of an upgrade in Brazil's bond rating. As the outlook on Brazil's ratings is stable, there is limited possibility for an upgrade in Sicredi's ratings.

## Factors that could lead to a downgrade

- » Negative pressure on Sicredi's ratings would derive from significant weakening in its loan portfolio performance that pressures Sicredi's profitability and capital generation. A downgrade in Brazil's ratings would lead to a downgrade in Sicredi's ratings as well.

## Key Indicators

Exhibit 2

### Banco Cooperativo Sicredi S.A. (Consolidated Financials) [1]

	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (BRL Million)	263,508.6	197,573.8	154,860.9	110,629.3	95,072.8	29.0 <sup>4</sup>
Total Assets (USD Million)	49,909.3	35,431.0	29,814.2	27,501.3	24,530.2	19.4 <sup>4</sup>
Tangible Common Equity (BRL Million)	29,886.7	24,543.5	19,845.5	17,023.5	14,517.7	19.8 <sup>4</sup>
Tangible Common Equity (USD Million)	5,660.6	4,401.4	3,820.7	4,231.9	3,745.8	10.9 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.1	0.6	0.6	1.1	1.1	0.9 <sup>5</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.9	3.0	2.6	4.0	3.7	3.7 <sup>5</sup>
Net Interest Margin (%)	7.4	6.9	7.5	9.3	9.3	8.1 <sup>5</sup>
Net Income / Tangible Assets (%)	2.2	2.4	2.1	2.8	2.9	2.5 <sup>5</sup>
Cost / Income Ratio (%)	50.1	53.3	55.7	56.7	57.6	54.7 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	19.7	20.2	16.8	19.1	19.9	19.1 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	26.8	26.4	31.3	31.9	38.7	31.0 <sup>5</sup>
Gross Loans / Due to Customers (%)	93.7	105.5	94.6	106.1	97.0	99.4 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.

Sources: Moody's Investors Service and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Profile

Banco Cooperativo Sicredi is the central banking entity of Sistema de Crédito Cooperativo Sicredi (Sicredi Group, or the Group), a federated credit cooperative system in Brazil that, as of December 2022, was comprised of more than 100 credit unions and around 6.4 million depositors (members) with presence in 26 Brazilian states plus the federal district. The Sicredi Group offers traditional financial services to associates under a common brand and following centralized risk policies and controls. In accordance with the cooperative culture, members of Sicredi's individual credit unions are also the shareholders of those credit unions.

## Detailed credit considerations

### Granular portfolio and strict credit policy are cornerstones for low delinquency

Moody's assigns a ba1 score to Sicredi's asset risk, reflecting its granular, geographically diversified loan book and conservative provisioning policies. At the same time, the score incorporates our expectation that the seasoning of strong recent growth of Sicredi's loan portfolio, could lead to higher asset risk as well as our view on sector concentration.

Building up from its consolidated presence in rural areas and growing into large cities in Brazil to enhance its business diversification, Sicredi Group reported 30.1% of compound annual growth rate in the past four years (2019-2022), above the expansion of the industry credit in Brazil of 12.8% in the period. As of December 2022, Sicredi's problem loans ratio returned to pre-pandemic levels and stood at 1.1%, higher than the 0.6% in 2021. The ratio is also well below the Brazilian banking system 90-day delinquency of 3.0% reported in December 2022. Of note, Sicredi's problem loans, as calculated by Moody's, include only installments past due by 15 days or more. The group's superior asset quality indicators to peers' can also be demonstrated when we look at credits classified between E and H (current and past due) under local regulation, which represented 4% of its portfolio in December 2022, well below the 6% for the entire Brazilian banking system.

Each one of the credit unions within Sicredi's cooperative system provides loans and other traditional financial services to its own associates, mostly individuals from low to mid income classes and small farmers. As of December 2022, agribusiness was the dominant segment in Sicredi's loan book accounting for 33.9% of total loans, followed by retail loans to households (30.6%). Sicredi's sectorial concentration in agribusiness is partially compensated by the low ticket per customer and by nationwide footprint, limiting risks related to concentration issues. As of December 2022, the 60 largest borrowers represented 2.4%, and the top 160 represented 4.1%, as a result of Sicredi's strict underwriting policies. Additionally, the bank also maintained a high reserve coverage ratio, equivalent to 3.6x its problem loans in December 2022, which will continue to mitigate rising asset risks related to the accelerated business growth, in times of high inflation pressure that will likely continue to strain on individuals' repayment capacity over the next quarters. With a high, direct and indirect, correlation to the agribusiness segment, the low level of delinquencies also reflects the high commodities prices that mitigates credit risks related to customers in the sector.

Moreover, Sicredi actively monitors actual and potential environmental risk that could come from its loans to corporate associates and applies strict underwriting guidelines to manage its potential reputational risks associated with lending to such companies. The group's internal regulation also states that a credit union cannot provide new loans if it does not comply with the minimum liquidity, capital and asset risk thresholds established centrally by risk management, and a recovery plan must be implemented. In addition, each credit union must hold sufficient reserves to cover its problem loans, providing a relevant loss absorption buffer.

### Strong capitalization and strict leverage policy has supported Sicredi's accelerated expansion

We score Sicredi's capital as baa3, reflecting Sicredi's credit unions above average capitalization, strict leverage policies, and solid track record of capital replenishment capacity through the cycles. According to internal regulations, each credit union must report capital ratios at least 300 basis points above regulatory minimum, which ensures a solid position at the network level. The ratios are centrally monitored and noncompliant entities are only allowed to originate new credit operations under the supervision of regional centers. Credit unions whose capital ratios remain below internal thresholds must present plans to replenish capital. The group also benefits from regular reinvestment of net income in its capital structure.

In line with its cooperative nature, each of Sicredi's individual associates is a shareholder of the group and new joiners are required to make an equity injection to be a member. These contributions and the systematic earnings retentions have historically supported a high capitalization at the group level, with capital primarily made of common equity. In 2022, Sicredi's shareholder's equity increased by BRL5.4

billion, constituted by (1) BRL5.9 billion of retained earnings, (2) BRL1.2 billion capital injection, (3) BRL533.7 million of withdrawals from members who left the group, (4) BRL774.7 million of earnings distribution and (5) BRL245 million destined to social programs.

In terms of ownership structure, the local credit unions and the five regional centers are the shareholders of Sicredi Participações - the holding entity that controls Banco Cooperativo Sicredi.

### **Sound profitability with increasing competition and higher credit costs pressuring future margins**

Although profit maximization is not Sicredi's main objective, given its cooperative model, the group's profitability metrics remained strong between 2021 and 2022 reflecting the high loan growth pace, stable service revenue, drivers that partially compensated for the higher funding and credit costs. In December 2022, net income to tangible assets reached 2.2%, significantly above 1.5% average for rated banks in Brazil in the same period. The group also benefits from the fact that income from cooperative lending activities is not taxable under Brazilian tax law. However, and despite Sicredi's well-established position in its core markets, the group is exposed to rising competition from large commercial banks that have increased their footprint in agribusiness, which will pressure future margins and bottom line results.

Operating efficiency improved to 50.1% in 2022, from 53.3% in 2021, despite the higher costs related to the franchise expansion, which has been largely helped by digital initiatives. Sicredi is present in more than a thousand cities, which provides geographical diversification to earnings. At the same time, this characteristic weighs on Sicredi's operating expenses, as individual credit unions lack operational scale and must comply individually with regulatory demands from the Central Bank, including the reporting of audited financials.

Our score of baa2 for profitability reflects Sicredi's strong track record, as well the challenges the group faces in maintaining high profitability in light of increasing competition and challenging operational environment.

### **Granular funding base supports adequate liquidity profile**

Moody's scores Sicredi's combined liquidity at baa3, incorporating a baa3 score for funding structure and ba1 for liquid resources, which are driven by its stable, granular funding base and conservative liquidity management across the cooperative system.

As of December 2022, deposits and deposit-like instruments were its major funding source accounting for 76% of Sicredi's total funding. The second most important source are domestic onlendings operations mostly from government-owned development bank [Banco Nac. Desenv. Economico e Social - BNDES](#) (Ba2 stable, ba2<sup>1</sup>) – BRL18.3 billion - which are channeled through Banco Sicredi to the credit unions, and represent 8.2% of the bank's funding. According to internal regulations, the minimum amount of liquidity established for each entity depends on the volatility of its funding availability, being higher for unions with higher deposit concentrations and noncompliant entities cannot disburse new loans. We understand such measures help to address the challenges imposed by the complex and heterogenic network and reinforce the cross guarantee in place.

Liquidity is managed centrally and operated by its banking entity. In addition, credit unions are protected by a cross guarantee in the event of any liquidity or capital needs, which has historically reflected into a conservative liquidity profile to the group. In 2022, despite the high growth pace of the portfolio in the period (20.6% in the 12 months ended in December 2022) liquidity buffers remain stable supported by the increase in deposits from customers. Liquid assets to tangible banking assets ratio remained flat at 26.8% at the end of 2022, but lower than the 37.5% average between 2015 and 2020.

### **Qualitative adjustments**

Sicredi's cooperative model results in intrinsic limitations to its franchise in terms of business flexibility and growth. In addition, the cooperative system as a whole presents higher structural complexity, which derives from the heterogeneity of individual cooperative entities, than rated commercial banks. The comprehensive and timely risk monitoring by Banco Sicredi counterbalances this complexity. Nonetheless, in order to reflect this increased complexity, we assign a qualitative adjustment of -1 for opacity and complexity to Sicredi.

### **Sicredi's rating is supported by Brazil's Moderate - Macro profile**

Brazil's macro profile of "Moderate-" is supported by the country's large scale and highly diversified economy, with limited exposure to external financing risk. Nonetheless, we expect a less benign operating environment for banks in 2023 as a result of a deceleration in economic activity, which stems from the central bank's restrictive monetary policy to curb inflationary pressure. We forecast a real GDP growth of 0.9% for 2023, showing a reduction from 3.0% in 2022. High unemployment and household indebtedness, aligned with a tightening monetary policy, will negatively affect loan growth to one-digit rate from the high-teen rates reported in 2022.

Despite these challenges, we expect banks' high volume of reserves for loan losses to comfortably absorb any increase in loan delinquency that will remain at high levels in 2023. Profit will be affected positively by high interest rates at new loan originations and at banks' high liquidity levels largely placed in government securities, but, at the same time, will be pressured by a rise in provision expenses. Banks will face little pressure on funding needs considering the ample volume of liquidity in the system.

## ESG considerations

### Banco Cooperativo Sicredi S.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Sicredi's CIS-2 reflects the limited credit impact of environmental and social risk factors on the rating to date and low governance risks. Corporate governance practices are robust, relying on Sicredi's corporativism model that have supported the bank's credit profile across different economic cycles. The bank has a strong track record of earnings recurrence, underpinned by its sound risk management practices.

Exhibit 4

#### ESG Issuer Profile Scores

ENVIRONMENTAL

## E-3

Moderately Negative



SOCIAL

## S-4

Highly Negative



GOVERNANCE

## G-2

Neutral-to-Low



Source: Moody's Investors Service

### Environmental

Sicredi faces moderate exposure to environmental risks because of its portfolio exposure to carbon transition and physical climate risks as a large cooperative bank with meaningful lending activity to rural borrowers. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

### Social

Sicredi faces high industrywide social risks related to regulatory and litigation risk requiring the bank to meet high compliance standards. High cyber and personal data risks are mitigated by a sound IT framework. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

### Governance

Sicredi faces low governance risks, and its risk management policies and procedures are in line with industry best practices. Sicredi's board is elected by the members of the cooperative and its ownership structure is diversified and granular. The bank's management has a strong track record of good compliance and in maintaining the bank's steady earnings generation.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Notching considerations

In the absence of a bail-in resolution regime framework in Brazil, the ratings of subordinated debts, bank hybrids and contingent capital securities follow the "Additional Notching Guidelines", as per the Rating Methodology: Banks. In these cases, the approach takes into account other features specific to debt classes, resulting in additional notching from the adjusted baseline credit assessment (BCA) of the issuer.

### Government support

We believe there is a low likelihood of government support for Sicredi's ratings, which reflects the bank's small share of deposits and assets in Brazil's banking system.

### Counterparty Risk (CR) Assessment

#### Sicredi's CR Assessment is Ba1(CR)/Not Prime(CR)

The CR Assessment of Ba1(cr) is one notch above the Adjusted BCA of ba2 based on our view that senior obligations represented by the CR Assessment will be more likely preserved than senior unsecured debt in order to minimize losses, avoid disruption of critical functions and limit contagion. This CR Assessment reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations.

### Counterparty Risk Rating (CRR)

#### Sicredi's CRRs are Ba1/NP

Sicredi's global local-currency CRRs are positioned at Ba1 and Not Prime, one notch above the bank's Adjusted BCA, reflecting the lower probability of default of CRR liabilities and our expectation of a normal level of loss given default.

### About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 5

Banco Cooperativo Sicredi S.A.

### Macro Factors

**Weighted Macro Profile**      **Moderate**    **100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.1%	baa2	↔	ba1	Sector concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	-	-	-	baa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	2.2%	baa1	↔	baa2	Return on assets	Expected trend
Combined Solvency Score		baa2		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.7%	ba1	↔	baa3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	26.8%	ba1	↔	ba1		
Combined Liquidity Score		ba1		baa3		
Financial Profile				baa3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Ba2		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba1	0	Ba1	Ba1
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1(cr)	
Senior unsecured bank debt	0	0	ba2	0	Ba2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 6

Category	Moody's Rating
<b>BANCO COOPERATIVO SICREDI S.A.</b>	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Corporate Family Rating	Ba2
Issuer Rating -Dom Curr	Ba2
ST Issuer Rating -Dom Curr	NP

Source: Moody's Investors Service

## Endnotes

<sup>1</sup> The bank ratings shown in this report are the bank's domestic deposit rating and BCA.



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