

# Rating Action Announcement

## Moody's Local upgrades Banco de Desenvolvimento de Minas Gerais S.A.'s rating to A.br; positive outlook

### *Rating Action Announcement*

**SÃO PAULO, 17 NOVEMBER, 2023**

Moody's Local BR Agência de Classificação de Risco Ltda. ("Moody's Local") has today upgraded the issuer rating of Banco de Desenvolvimento de Minas Gerais S.A. (BDMG) to A.br from BBB+.br. The outlook is positive.

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#### RATING(S) RATIONALE

The upgrade of BDMG's rating incorporates the improvement in the quality of the loan portfolio, as seen by the reduction in the high level of renegotiations, which have gradually returned to perform. In addition, BDMG has shown broad diversification in its funding structure compared to Brazilian development banks, with less dependence on Banco Nacional de Desenvolvimento Econômico e Social (BNDES) onlending and increasing access to resources from multilateral agencies and retail investors. On the other hand, mainly due to non-recurring items, BDMG has shown volatility in its profitability, but which still remained at a sufficient level to support its high capitalization. The rating of BDMG also incorporates a moderate level of support from its controller, the State of Minas Gerais, due to its strategic role in the development of the State. The positive outlook reflects the expectation that the renegotiated loans will continue to perform well, mitigating potential negative pressures on asset quality and profits, while management will continue the expansion of the bank's operations.

In June 2023, its credit portfolio reached R\$ 5.6 billion, a growth of 1% year over year. The problem loans, considered in our analyses as the loans overdue classified between E and H under the local regulation 2,682, were 2.1% of the loan portfolio and allowances for loan losses covered them by 493% in June 2023. The renegotiated loans represented 20.8% of the total loans in June 2023, compared to 24.5% at the end of 2022. The renegotiations have a high level of provisioning, about 49.5% at the end of June 2023, being an important mitigation of future losses arising from this portfolio with aggravated risk.

BDMG has historically presented high capitalization levels, averaging 22.4% since 2018, composed exclusively of common equity. In June 2023, its Tier 1 regulatory capital ratio was 26.3%, substantially above regulatory minimums. Its strong capacity to generate results, as well as the modest growth in the loan portfolio, have ensured robust capital ratios.

In addition to achieving its primary role as a promoter of economic and social development in Minas Gerais, BDMG has been able to report adequate profitability, as measured by Moody's Local by the net income to tangible banking assets ratio. In June 2023, the bank's annualized profitability was 0.6%, compared to 1.7% in 2022. In the first semester of 2023, the bank's net income was R\$ 31.1 million, a 52% decrease compared to the same period last year. The 2023 result was impacted by an increase in provisions for tax obligations related to the COFINS (Contribution for Social Security Financing) process, following an unfavorable decision by the Federal Supreme Court in June 2023, with a net impact of approximately R\$ 60 million on its net income. In addition to this one-off item, we have noted some volatility in its results in recent years, mainly due to changes in provision expenses.

Over the years, the bank has been working on diversifying its funding sources, reducing its dependence on BNDES. Onlending from BNDES and other federal institutions, which in 2017 accounted for 84% of the total funding, ended the first semester of 2023 at 34%. BDMG has been successful in raising funds from multilateral agencies, currently accounting for 30% of its total funding. In addition to these foreign resources, BDMG has also been active in the local capital market through the issuance of domestic bonds, accounting for 7% of the total funding. In the retail segment, BDMG primarily operates through term deposits and agribusiness linked-notes (Letras de Crédito do Agronegócio, LCAs) on third-party platforms, sources that have been growing strongly since 2020, reaching 27% in June 2023.

BDMG's asset liability management benefits from primarily operating with local onlendings and foreign borrowings, which have matching maturities and rates between fundraising and credit concessions. However, the growth of term deposits, LCAs, and domestic bonds has required investments in pursuit of greater sophistication in its asset liability management. In June 2023, liquid banking assets represented 26.3% of tangible banking assets.

BDMG is headquartered in Belo Horizonte (Minas Gerais) and is a public bank that operates with the purpose of supporting companies from various sectors of the economy, promoting the economic-financial and social development of Minas Gerais. In June 2023, the bank reported a total of R\$ 8.2 billion in assets and a shareholders' equity of R\$ 2.1 billion.

#### FACTORS THAT CAN LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING(S)

BDMG's rating could be upgraded if the bank maintains the quality of its loan portfolio, while simultaneously reduces renegotiations and keeps expanding its operations with the maintenance of lower dependence on BNDES onlending. In addition, a strengthening of the credit profile of the controller, resulting in higher support assumptions, would also exert positive pressure on its rating.

A downgrade of the rating is unlikely given the positive outlook. The outlook could be revised to stable if there is a significant deterioration in its asset quality, resulting in a sharp decline in its profitability, with net income to tangible banking assets ratio at 0.4%. A reduction in capital levels, to Tier 1 regulatory capital ratio at 16.2%, would also exert negative pressure on its credit profile. Finally, BDMG's rating could be downgraded if there is a reduction in the level of support from the controller or a more negative perception of governance.

#### APPLICABLE METHODOLOGY

The principal methodology used in these ratings Rating Methodology for Banks and Financial Companies ("Metodologia de Rating para para Bancos e Empresas Financeiras", in Portuguese), published on 10/25/2023 and available in the section for methodologies at [www.moodyslocal.com/country/br](http://www.moodyslocal.com/country/br).

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**Banco de Desenvolvimento de Minas Gerais S.A**

Initial Rating Assignment Date

Date of Last Rating Action

Issuer Rating	June 29, 2021	June 22, 2022
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