

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades BDMG's issuer rating to B1; outlook remains positive

03 Oct 2024

New York, October 03, 2024 -- Moody's Ratings (Moody's) has upgraded Banco de Desenvolvimento de Minas Gerais S.A.'s (BDMG) long-term local currency issuer rating to B1, from B2, as well as its long-term local- and foreign-currency counterparty risk ratings to Ba3, from B1. We also upgraded BDMG's baseline credit assessment (BCA) and adjusted BCA to b1 from b2, as well as its long-term counterparty risk assessment to Ba3(cr) from B1(cr). At the same time, the short-term issuer and local- and foreign-currency counterparty risk ratings were affirmed at NP and the short-term counterparty risk assessment was affirmed at NP(cr). The outlook on BDMG's long-term issuer rating remains positive.

RATINGS RATIONALE

The upgrade of BDMG's BCA to b1 reflects the steady improvement in its financial fundamentals in the past four years, supported by manageable asset risks, strong capitalization and adequate funding structure that shows good diversification of length and sources to support business growth. At the same time, this upgrade also follows the upgrade of the long-term issuer rating assigned to the State of Minas Gerais to B1, from B2, that was announced on 2 October 2024, following the upgrade of the Government of Brazil's sovereign debt rating to Ba1.

Despite the bank's strong linkage with the state government of Minas Gerais and its exclusive role as financial development agent of the state that limits the operation geographically, BDMG's operations have been supported by a strong economic activity in its regional local market.

BDMG's BCA at b1 acknowledges the bank's adequate level of problem loans in the past four years that stood at 1.6%, down from 2.1% in June 2023 and still below the industry average of 3.8% in July 2024. Our assessment also incorporates BDMG's high volume of renegotiated loans, which could suggest future asset quality weakening. The bank's asset risks are offset by high collateral levels and loan loss reserves that cover 5.7x problem loans.

Despite its modest profitability metrics that reflects the bank's development banking mandate, BDMG's capitalization remains strong, with a tangible common equity to adjusted risk-weighted assets (TCE/RWA) ratio of 20.4% as of June 2024, providing a substantial buffer against loan losses and potential profitability volatility. The bank's strong capitalization also supports management's growth strategy, targeting BRL10 billion (\$2 billion) in total loans over the next 3-4 years.

BDMG's ratings outlook remains positive, reflecting the potential impact on its financial profile stemming from a continuing improving operating environment in Brazil and the strong economic activity in the state of Minas Gerais that will continue to support the bank's operations.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of the BDMG's ratings and assessments would be considered if the bank continues to report consistent growth in loan volumes origination while maintaining manageable problem loan ratios, preserving funding diversification and adequate profitability. In addition, the bank's ratings could face upward pressure if the ratings of the State of Minas Gerais were to be upgraded.

The bank's B1 issuer rating has a positive outlook, and therefore, downward pressures are less likely at this point. However, a sudden change to BDMG's financial fundamentals, including adverse selection that would build problem loans and/or unexpected capital reduction, could trigger the downgrade pressure to its standalone assessment currently at b1.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moody.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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