

RATING ACTION COMMENTARY

Fitch Places BRB's and Master's Ratings on Rating Watch Evolving

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Fitch Ratings - Rio de Janeiro - 04 Apr 2025: Fitch Ratings has placed on Rating Watch Evolving (RWE) BRB - Banco de Brasilia SA's (BRB) 'B-' Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and its 'BBB+(bra)' National Long-Term Rating. Fitch has also placed on RWE Banco Master SA's (Master) 'B+' Long-Term Foreign and Local Currency IDRs and its 'A-(bra)' National Long-Term Rating. This action follows BRB's announcement to acquire 49% of Master's common shares and 100% of its preferred shares, totaling 58% of the bank's overall capital.

This follows the ongoing partial merger between BRB and Master, which faces challenges and uncertainties regarding its completion. This transaction and Master's ownership changes are pending regulatory approvals and, if completed, could impact BRB and Master's financial profiles.

Fitch will monitor the transaction's progression and assess additional details as they become available to determine the likely direction of the ratings. RWE indicates that the ratings could be upgraded, downgraded or affirmed, depending on how financial and operational trends develop following the sale announcement.

The transaction may take six months or more to be completed. Fitch will resolve the Rating Watch upon transaction close and confirmation of corporate and capital structure details. Fitch will also assess BRB's credit profile and the impacts of these events in a consolidated basis considering the acquired Master assets.

A full list of rating actions is below.

KEY RATING DRIVERS

BRB's Ratings Driven by Shareholder Support: Prior to today's action, BRB's ratings reflected its Viability Rating (VR) and shareholder support from its parent, the Federal District Government (GDF). The 'b-' VR aligned with this support assessment, while its IDRs and national ratings reflected GDF's ability and willingness to provide timely support. The Negative Outlook reflected concerns about medium-term capitalization challenges and delayed shareholder support, which have kept BRB's core equity regulatory capitalization low.

Master's Ratings Driven by VR: Prior to today's action, Master's ratings benefited from business expansion and company acquisitions, which stabilized its franchise and improved risk profile management after periods of growth. However, the bank's asset quality remains riskier than those of more traditional retail banks. Additionally, concerns exist related to asset-liability management (ALM), as the bank relies on expensive retail platform funding against a moderately higher duration asset base.

Consolidated Structure: As part of the acquisition, BRB will lead the prudential conglomerate, implementing governance structures across the group. This includes strategic involvement in Master's boards and executive committees to ensure cohesive operational and strategic alignment.

The conglomerate resulting from the acquisition is expected to present a consolidated balance sheet combining the operations of the current BRB and the current Banco Master Múltiplo SA, its subsidiaries, and Maximainvest Securitizadora Ltda. The remaining companies of the Master Group, along with the precatory bonds, stocks, and equity funds operations currently allocated in Master's balance sheet, will remain excluded from the deal. Fitch's premises consider this scenario.

Capitalization Expected to Strengthen Position: As part of the acquisition, a capital injection will bolster BRB's capital position and alleviate its tight common equity Tier 1 (CET1) buffers, strengthening its market position and business model. Strategic assumptions include leveraging Master's expertise in handling complex financial transactions, incorporating the Will digital banking platform to enhance BRB's technological offerings, expanding payroll loan offerings such as Master's Credcesta business unit, optimizing financial operations through BRB's lower funding costs, and implementing robust governance frameworks.

Execution Risks Remain: Execution risks arise from BRB and Master differing models. Despite these risks, potential synergies in retail banking, product diversification, and geographic expansion offer growth opportunities. However, if the transaction does not

proceed as planned, BRB's existing capitalization challenges could worsen. For Master, the RWE reflects similar uncertainties regarding the organizational structure post-acquisition.

Liquidity Strategies: Although ALM is well matched, the credit profile remains sensitive to this risk, which has increased notably after the deal announcement. As the liquidity provider, BRB will leverage its advantageous funding position, with Master's funding costs expected to decrease. While the acquisition could address some of vulnerabilities, it also introduces uncertainties that Fitch will evaluate as the transaction progresses.

Synergies to Enhance Financial Metrics: Fitch believes that the consolidated prudential balance sheet of BRB and Master, presented after the deal's completion, will show improvements, mainly marked by improved capital ratios compared to BRB's current capitalization metrics. This should also lead to funding costs lower than Master's current funding profile. Additionally, Fitch anticipates potential synergies in several business areas for both entities, which can contribute to a more robust business model and higher total operating income. Improvements in governance, product diversification, and geographic expansion are also expected for the new bank.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--If regulators block the transaction, Fitch would review the potential impacts on the business model and liquidity/funding on both banks;

--Fitch may also negatively review its position if the minimum and mandatory conditions for the deal are not met.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The ratings could change positively based on Fitch's better evaluation of BRB's consolidated business and financial profiles, especially with better capitalization metrics and improved funding structure.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

BRB - Banco de Brasilia SA has an ESG Relevance Score of '4' for Financial Transparency due to delays in the presentation of audited financial statements, raising concerns about governance, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors. The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section.

A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
<input type="text"/>	<input type="text"/>			<input type="text"/>
BRB - Banco de Brasilia SA	LT IDR	B-	Rating Watch On	B-
	ST IDR	B	Rating Watch On	B
	LC LT IDR	B-	Rating Watch On	B-
	LC ST IDR	B	Rating Watch On	B
	Natl LT	BBB+(bra)	Rating Watch On	BBB+(bra)
	Natl ST	F2(bra)	Rating Watch On	F2(bra)

	Viability	b-	Rating Watch On	b-
	Shareholder Support	b-	Rating Watch On	b-
Banco Master S.A.	LT IDR	B+	Rating Watch On	B+
	ST IDR	B	Rating Watch On	B

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[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

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The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodologia de Ratings em Escala Nacional \(pub. 22 Dec 2020\)](#)

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

[Metodologia de Ratings de Bancos \(pub. 21 Mar 2025\)](#)

ADDITIONAL DISCLOSURES

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Banco Master S.A.

EU Endorsed, UK Endorsed

BRB - Banco de Brasilia SA

EU Endorsed, UK Endorsed

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