

Research Update:

Banco do Estado do Para 'BB-/B' Ratings Affirmed Despite State of Para's Weaker Fiscal Performance; Outlook Negative

May 6, 2019

Overview

- Brazilian regional bank, Banco do Estado do Para, continues to have a strong financial profile and low government interference despite the state of Para's weakening fiscal performance in 2018.
- We're affirming our 'BB-/B' global scale and 'brAA+/brA-1+' national scale ratings on the bank.
- The negative outlook reflects the short track record of the state's new administration that took office in January of this year and the uncertainty about how it will conduct its state-owned enterprise businesses amid tighter fiscal conditions.

Rating Action

On May 6, 2019, S&P Global Ratings affirmed its 'BB-/B' global scale and 'brAA+/brA-1+' Brazilian national scale issuer credit ratings on Banco do Estado do Para (Banpara). The outlook remains negative. The bank's stand-alone credit profile (SACP) is 'bb-'.

Rationale

An acceleration in the state of Para's (not rated) infrastructure spending and a passive revenue policy have resulted in weakening fiscal results. Moreover, the state's liquidity position is constrained by increasing spending pressures and limited access to external financing. Despite the state's weakening fiscal results, our ratings remain unchanged on Banpara at this point. Banpara's role as the state's financial agent and the bank's mission to expand banking services to Para's isolated municipalities have supported its regional brand recognition and strong financial resilience in the last few years.

The bank offers payroll deductible-lending to the state's public employees and retirees. It finances this through its abundant access to stable and cheap retail funding given its mandate to

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manage the state's payroll, including state-owned companies, municipalities, and the judiciary. Banpara has maintained sound capital and liquidity levels thanks to its strong profitability, with return on equity close to 30% and historically stable dividend payouts (at about 40%). In addition, the bank has a long record of a hands-off approach from the government and financial resilience to government interference. Banpara operates under the Law 13.303 that sets minimum requirements for appointing state-owned companies' board members, which somewhat supports the quality of the management and transparency, but doesn't prevent the government from influencing the bank's decision-making.

Outlook

On March 18, 2019, we revised the trend on our Banking Industry Country Risk Assessment (BICRA) of Brazil to stable from negative, reflecting our opinion that the Brazilian economy will continue to recover in the next two years, supporting banks' efforts to stabilize asset quality metrics and reduce the need for additional provisions. Despite the lower downside risk on the financial sector, we believe Banpara's long-term strategy under the state's new administration is still unclear in terms of how the government will face tighter fiscal conditions.

Our negative outlook for the next 12 months reflects the new state administration's short track record, as well as uncertainty about how it will operate its state-owned businesses amid the tighter fiscal conditions. Our base-case scenario assumes that Banpara will continue to focus on its profitable payroll deductible lending business, supported by its ample funding access as the state's financial agent. We expect that potential strategy changes will not harm the bank's creditworthiness in the next year or so given its solid financial position.

Downside scenario

We could lower our ratings on the bank if we believe that potential changes in Banpara's strategy and role to the government would impair its business prospects, financial results, capital levels, funding availability, or liquidity.

Upside scenario

We could revise the outlook to stable if we have clear guidelines about Para's new administration's approach towards its enterprises' operations and the role of Banpara in its mandate.

Ratings Score Snapshot

Issuer credit rating

Global scale: BB-/Negative/B

National scale: brAA+/Negative/brA-1+

Anchor: bb+

Business position: Weak (-2)

Capital and earnings: Adequate (0)

Risk position: Moderate (-1)

Funding and liquidity: Above Average and Strong (+1)

Support (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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Banco do Estado do Para S.A.

Issuer Credit Rating

Global Scale BB-/Negative/B

Brazil National Scale brAA+/Negative/brA-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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