Banco do Brasil (BBAS3) | 1Q25 Results Disappoint as New Provisioning Rule Amplifies Agribusiness Losses

May 16, 2025

In 1Q25, Banco do Brasil reported a recurring **net income** of **R$ 7.4 billion**, **substantially below expectations** — **20% lower than the market consensus** and **17% below our estimates** — just a few months after releasing its 2025 guidance. This represents a **sharp decline** of **-23.0% QoQ** and **-20.7% YoY**. The **ROE fell to 15.8%** (-4.5 pp QoQ and -5.4 pp YoY), marking its **lowest level since 2021**.

The weaker-than-expected performance was driven by **three main factors**:
(i) Agribusiness: persistently high delinquency in the segment, which reached **3.04%** (+0.6 pp QoQ; +1.9 pp YoY), mainly driven by certain soybean and corn producers;
(ii) New Regulation (Resolution No. 4,966): required a **substantial increase in provisions for expected losses**, including for performing loans, thereby **amplifying** and **accelerating** the effects of the **credit cycle**;
(iii) Net Interest Income (NII): interest income was negatively affected by a **mismatch between fixed-rate assets and floating-rate liabilities**, aggravated by high interest rates. Additionally, the **accounting change** introduced by Resolution 4,966 **reduced NII by approximately R$ 1 billion**, as it now requires revenues from Stage 3 loans to be recognized on a cash basis instead of accrual basis.

Given the **increasingly challenging and uncertain agribusiness outlook**, we see potential for **further deterioration in results throughout 2025** — particularly in light of the anticipated worsening of the delinquency cycle in specific portfolios during the second half of the year, continued **pressure on agribusiness asset quality**, and **growing difficulty** in sustaining **revenue growth**.

In this context, we **downgrade our recommendation from BUY to HOLD**. We also **lower** our **target price** from **R$ 40.30** to **R$ 31.40**, which implies an **upside of 6.8%**.

Banco do Brasil (BBAS3 BZ Equity)

Recommendation: HOLD

Equity Value (R$ mn): 179.953

Outstanding Shares (mn): 5.731

Target Price 12M: R$ 31,40

Current Price (R$): 29,40

Upside: 6,80%

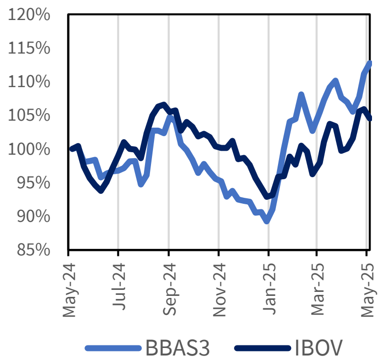

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Figure 1: Guidance Under Review: Outlook for BB Has Deteriorated

Guidance 2025 (R$bn)	Range	Observed
Loan Portfolio	5,5% to 9,5%	12,5%
Individuals	7% to 11%	6,6%
Corporate	4% to 8%	22,6%
Agribusiness	5% to 9%	9,0%
Sustainable Portfolio	7% to 11%	9,6%
Net Interest Income	**Under Review**	**R$ 23,9**
Cost of Credit	**Under Review**	**R$ 10,2**
Fee Income	R$ 34,5b to R$ 36,5b	R$ 8,4
Administrative Expenses	R$ 38,5b to R$ 40,0b	R$ 9,5
Adjusted Net Income	**Under Review**	**R$ 7,4**

Source: Banco do Brasil and Genial

Guidance Left Under Review

In light of the weaker-than-expected performance and **low visibility surrounding the current agricultural cycle**, Banco do Brasil announced the **revision** of a significant portion of its **guidance**, covering projections for **net interest income (NII), cost of credit,** and consequently, **adjusted net income**. Unlike previous updates, the bank **did not provide new numerical parameters**, opting to leave these variables open until a reassessment scheduled for 2Q25 — which will depend on **delinquency stabilization in agribusiness**, potentially supported by the harvest during the quarter.

Cost of Credit Under Review

This revision is negative and largely reflects the impacts of **Resolution No. 4,966**, which introduced the expected loss model for provisioning. As a result, portfolios **more sensitive to the current credit cycle** — such as agribusiness and micro and small enterprises (SMEs) — experienced a **sharp increase in provisions**. In the case of agribusiness, elevated delinquency caused the **provision flow to jump from R$ 3.0 billion in 4Q24 to R$ 5.2 billion in 1Q25**, significantly pressuring the quarter's credit cost. Given the **persistent deterioration in agribusiness** and the

large exposure to the agricultural portfolio (R$ 406 billion), the bank opted to **revise its consolidated credit cost guidance**.

Net Interest Income Under Review

The sharp contraction in **Net Interest Income (NII)** also prompted the revision of this line in the guidance. The decline was driven by three main factors:
(i) the high interest rate environment, which increased the bank's funding costs;
(ii) the effects of Resolution No. 4,966, which **reduced NII** by around **R$ 1 billion** due to the requirement that revenues from Stage 3 operations be recognized on a cash basis instead of an accrual basis; and

(iii) weaker treasury performance at Banco Patagonia, which totaled R$ 1.3 billion in the quarter (**-15.4% QoQ; -57.4% YoY**), reflecting the normalization of operations following recent macroeconomic adjustments in Argentina.

On a slightly more positive note, the bank's **CET1 ratio rose by +0.08 pp QoQ to 10.97%**, approaching its internal target of 11%. The improvement was driven by **organic capital generation** and **favorable effects from mark-to-market adjustments, exchange rate variation, and equity adjustments**, which offset the negative impacts from **Resolution No. 4,966 (-0.27 pp)** and the **increase in risk-weighted assets (RWA) (-0.04 pp)**.

However, given the more **challenging and uncertain outlook**, we see potential for **further deterioration in results throughout 2025** — especially considering the expected worsening of the delinquency cycle in certain portfolios during 2H25, **persistent pressures on agribusiness asset quality**, and increasing **difficulty in driving revenue growth**. In this context, we **downgrade our recommendation from BUY to HOLD**. We also **lower** our **target price** from **R$ 40.30** to **R$ 31.40**, which implies an **upside of 6.8%**. Our target price assumes: a **sustainable ROE**

of 16.5%, a **cost of equity (Ke) of 18.05%**, and a **growth rate (g) of 7.0%**.

Despite the **attractive valuation** — with the stock trading at **0.89x P/BV 2024**, **4.2x P/E 2025e**, and **3.8x P/E 2026e** — we adopt a **more cautious stance at this point in the rural credit cycle**.

Figure 2: Banco do Brasil | 1Q25 Results: Elevated Delinquency and Heavy Provisions Weigh on Earnings

Review (R$m)	1Q25E	1Q25	4Q24	1Q24	Vs Est	QoQ	YoY
Net Income	8.903	6.772	8.773	8.782	-23,9%	-22,8%	-22,9%
Recurring Net Income	**8.903**	**7.374**	**9.580**	**9.300**	**-17,2%**	**-23,0%**	**-20,7%**
Income Statement Summary							
Net Interest Income (NII)	**25.684**	**23.881**	**26.791**	**25.734**	**-7,0%**	**-10,9%**	**-7,2%**
Financial Income from Credit Operations	38.055	39.747	37.102	34.299	4,4%	7,1%	15,9%
Treasury Result	10.743	9.491	11.791	11.962	-11,6%	-19,5%	-20,7%
Commercial Funding Expenses	(19.480)	(21.089)	(18.384)	(17.285)	8,3%	14,7%	22,0%
Institutional Funding Expenses	(3.634)	(4.268)	(3.719)	(3.241)	17,5%	14,8%	31,7%
Fee Income	8.739	8.361	9.192	8.344	-4,3%	-9,0%	0,2%
Other Revenues/Expenses	(958)	(755)	(962)	(1.065)	-21,2%	-21,5%	-29,1%
Total Revenue	**33.465**	**31.488**	**35.021**	**33.013**	**-5,9%**	**-10,1%**	**-4,6%**
Personnel Expenses	(7.092)	(7.259)	(7.500)	(7.063)	2,4%	-3,2%	2,8%
Other Administrative Expenses	(6.927)	(7.309)	(7.700)	(6.644)	5,5%	-5,1%	10,0%
Total Administrative Expenses	**(14.019)**	**(14.568)**	**(15.199)**	**(13.707)**	**3,9%**	**-4,2%**	**6,3%**
Operating Income	**19.446**	**16.920**	**19.821**	**19.306**	**-13,0%**	**-14,6%**	**-12,4%**
Cost of Credit	(10.060)	(10.152)	(9.263)	(8.541)	0,9%	9,6%	18,9%
Provision Expenses	(12.452)	(11.440)	(11.190)	(10.532)	-8,1%	2,2%	8,6%
Credit Recoveries	2.392	1.289	1.927	1.991	-46,1%	-33,1%	-35,3%
Non-operational Results	75	39	80	48	-47,9%	-51,3%	-17,9%
Subsidiaries	1.934	1.761	2.059	1.842	-8,9%	-14,5%	-4,4%
Pre-Tax Income	**11.395**	**8.568**	**12.698**	**12.655**	**-24,8%**	**-32,5%**	**-32,3%**
Income Tax	1.593	425	2.249	2.379	-73,3%	-81,1%	-82,1%
Tax Rate	-14%	-5%	-18%	-19%	9,0pp	12,8pp	13,8pp
Minorities	900	770	869	976	-14,5%	-11,5%	-21,1%
Balance Sheet Summary							
Expanded Loan Portfolio	1.305.396	1.277.799	1.278.421	1.138.094	-2,1%	0,0%	12,3%
Bacen Loan Portfolio	1.123.839	1.103.534	1.100.641	1.002.375	-1,8%	0,3%	10,1%
Deposits	917.941	864.972	898.994	822.101	-5,8%	-3,8%	5,2%
Shareholder's Equity	192.441	184.189	190.072	179.021	-4,3%	-3,1%	2,9%
Profitability							
Net Interest Margin (NIM)		4,5%	5,3%	5,2%	4,49 p.p	-0,76 p.p	-0,68 p.p
Return on Equity (ROE)	18,6%	15,8%	20,3%	21,1%	-2,86 p.p	-4,54 p.p	-5,37 p.p
Operational Efficiency Index	41,9%	46,3%	43,4%	41,5%	4,37 p.p	2,86 p.p	4,75 p.p
Provision / Total Portfolio	3,6%	3,7%	3,4%	3,5%	0,07 p.p	0,24 p.p	0,23 p.p
Return on Assets (ROA)	1,4%	1,2%	1,6%	1,7%	-0,23 p.p	-0,35 p.p	-0,45 p.p
Asset Quality							
Delinquency (>90 days)	3,5%	3,9%	3,3%	2,9%	0,34 p.p	0,54 p.p	0,96 p.p
NPL Formation (R$m)	13.124	14.279	11.320	9.533	8,8%	26,1%	49,8%
Provision Reserves / Overdue Loans (90 days)	158,1%	184,8%	171,3%	196,0%	26,73 p.p	13,53 p.p	-11,17 p.p
Leverage							
Tier 1 Capital Ratio	12,6%	13,3%	12,7%	13,9%	0,69 p.p	0,61 p.p	-0,62 p.p
Basel Ratio	13,6%	14,1%	13,8%	15,1%	0,49 p.p	0,38 p.p	-0,99 p.p
Core Capital Ratio	11,6%	11,0%	10,9%	11,9%	-0,63 p.p	0,08 p.p	-0,93 p.p

Source: Banco do Brasil and Genial

Quarterly Highlights

Loan Portfolio: Solid Growth Across All Fronts

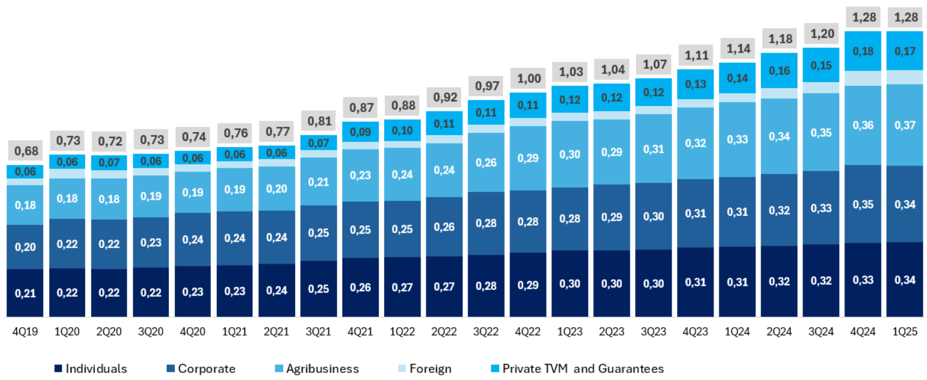
Banco do Brasil's **expanded loan portfolio** reached **R$ 1.28 trillion** in **1Q25**, up by **+1.1% QoQ** and **+14.4% YoY**. The annual growth was supported by **positive performance across all business segments**, with highlights in corporate and agribusiness lending.

Individuals. The retail portfolio totaled **R$ 336 billion** (+1.2% QoQ; +6.6% YoY), driven by strong performance in **Unsecured Personal Loans** (+4.2% QoQ) and **Overdrafts** (+13.2% QoQ). On a yearly basis, **Overdrafts** grew **+11.3% YoY**, while **Debt Consolidation Loans** rose **+18.4% YoY**. In contrast, **Auto Financing continued to decline (-10.4% QoQ; -19.6% YoY)**, reflecting the bank's lower risk appetite for this product.

Corporate. The corporate portfolio grew **+1.6% QoQ** and **+22.4% YoY**, reaching **R$ 460 billion**. Growth was driven by **Real Estate Lending** (+6.8% QoQ) and **Private Securities & Guarantees** (+13.3% QoQ). On an annual basis, highlights included **Receivables** (+17.0%), **Investment Loans** (+17.3%), and **Private Securities & Guarantees** (+90.4%). On the other hand, **Credit Card Lending declined -6.2% QoQ** and **-36.2% YoY**.

Agribusiness. The agribusiness portfolio was up by **+2.1% QoQ** and **+9.0% YoY**, with solid performance in **Working Capital Loans** (+3.6% QoQ), **Investment Lines** (+3.4% QoQ), and **BNDES/Finame Rural** (+19.1% QoQ). Year-over-year growth was led by **BNDES/Finame Rural** (+82.5%) and **Industrialization Lines** (+50.0%).

Figure 3: Expanded Loan Portfolio: +1.1% QoQ and +14.4% YoY, with broad-based growth across business lines



Source: Banco do Brasil and Genial

Net Interest Income (NII): Higher Funding Costs and Revenue Pressured by Resolution 4,966

Net Interest Income (NII) totaled **R$ 23.9 billion** in 1Q25, a decline of **-10.9% QoQ** and **-7.2% YoY**. The performance was mainly pressured by a **mismatch between** assets, mostly fixed-rate, and liabilities, mostly floating-rate, which reflect the impact of the **increase in the Selic rate** (+3 pp QoQ) and the **Referential Rate (TR)** (+0.17 pp QoQ) during the period.

Although Banco do Brasil has a balance sheet structure that naturally hedges against interest rate fluctuations, **sharp upward moves in rates tend to create temporary asymmetries**, negatively impacting financial margins.

Additionally, the quarter's NII was impacted by the adoption of **Resolution No. 4,966**. The main negative effect came from the **non-recognition of interest income from Stage 3 loans**, even for compliant customers (***negative*** *impact of* ***~R$ 1 billion***). On the other hand, there was a positive impact from the **extension of the accrual period for interest on delinquent loans from 60 to 90 days** (***positive*** *impact of* ***~R$ 200 million***).

Accounting View: Sharp Increase in Funding Costs

Financial income from loan operations grew +13.3% QoQ and **+22.6% YoY**. This strong quarterly growth was driven both by loan portfolio expansion and the **reclassification of revenues from private securities (TVMs)** with credit characteristics, which were previously recorded under Treasury Results and are now booked under loan operations due to Resolution 4,966.

These revenues were incorporated into the lines of **Agro Loans** (+3.0% QoQ; +17.2% YoY) and **Corporate Lending** (+43.5% QoQ; +52.5% YoY), with a **positive impact of R$ 3.9 billion** on Financial Income from Loan Operations.

Conversely, there was an equivalent reduction in **Treasury Results**, further pressured by weaker performance from Banco Patagonia, causing the line to decline **-39.1% QoQ** and **-39.7% YoY**.

Commercial funding expenses rose by +12.9% QoQ and **+20.4% YoY**, driven by the increase in the **average Selic rate** and the **Referential Rate (TR)**, as well as by growth in the average balance of commercial deposits. **Institutional funding expenses** rose even more sharply, **+23.7% QoQ** and **+42.6% YoY**, reflecting a significant increase in costs associated with **Subordinated Debt**, following the R$ 8.0 billion issuance of Perpetual Financial Bills (Letras Financeiras Perpétuas) during the quarter.

Summing up these dynamics, **Financial Income increased by +0.7% QoQ** and **+6.5% YoY**, but **lagged behind the growth in Financial Expenses (+14.6% QoQ** and **+23.7% YoY)**, thus **compressing net financial results**.

Managerial View: Decline QoQ and YoY

Client NII fell -2.2% QoQ and remained virtually **flat YoY (+0.3%)**, reflecting the impact of the mismatch between fixed-rate loan yields and floating-rate funding costs in a rising interest rate environment.

Meanwhile, **Market NII dropped significantly by -40.7% QoQ** and **-34.9% YoY**, due to the above-mentioned reclassification of private securities (TVMs), which affected treasury results. Additionally, **Banco Patagonia posted a weaker performance, down -15.4% QoQ** and **-57.4% YoY**, as its operations normalize amid the gradual recovery of Argentina's macroeconomic variables.

Fee Income: Impacted by Accounting Reclassification

Fee income totaled R$ 8.4 billion in 1Q25, down by **-9.0% QoQ** and remaining **virtually flat YoY (+0.2%)**. The variations, both quarterly and annual, were affected by the **deferral of credit-related fees associated with loan origination**, which are now recognized under Gross Financial Margin instead of Fee Income, following the adoption of Resolution No. 4,966.

This accounting change led to a **sharp drop in the "Loan Operations and Guarantees" line** (-84.1% QoQ; -78.3% YoY). **Excluding this impact**, fee income would have grown **+4.5% YoY**, a performance roughly in line with inflation for the period. On a quarterly basis, the **typical seasonal weakness at the beginning of the year** further contributed to the decline.

Despite this, we highlight the **strong annual growth** in **fund management fees** (+14.8% YoY) and **consortium management fees** (+18.5% YoY).

Cost of Credit and Delinquency: Pressured by New Provisioning Model and Agribusiness Deterioration

Banco do Brasil's cost of credit totaled R$ 10.2 billion in 1Q25, representing a **sharp increase** of **+9.6% QoQ** and **+18.9% YoY**, though still within the bank's guidance range. This rise was primarily driven by the **adoption of Resolution No. 4,966**, which implemented the **expected credit loss provisioning model**.

Additionally, there was a **decline** in **credit recoveries** during the period (-33.1% QoQ; -35.3% YoY).

Under the new regulation, the bank is now required to **recognize provisions at loan origination** and extend coverage to credit exposures that previously did not require provisioning. This new methodology tends to **exert pressure on provisioning expenses during periods of elevated delinquency**, such as the current one, especially amid the **ongoing deterioration in the agribusiness segment**.

The resolution also changed the classification of losses on securities, which were previously recognized as impairment losses and are now included under **expected credit losses**, further contributing to the **rise in credit cost** this quarter.

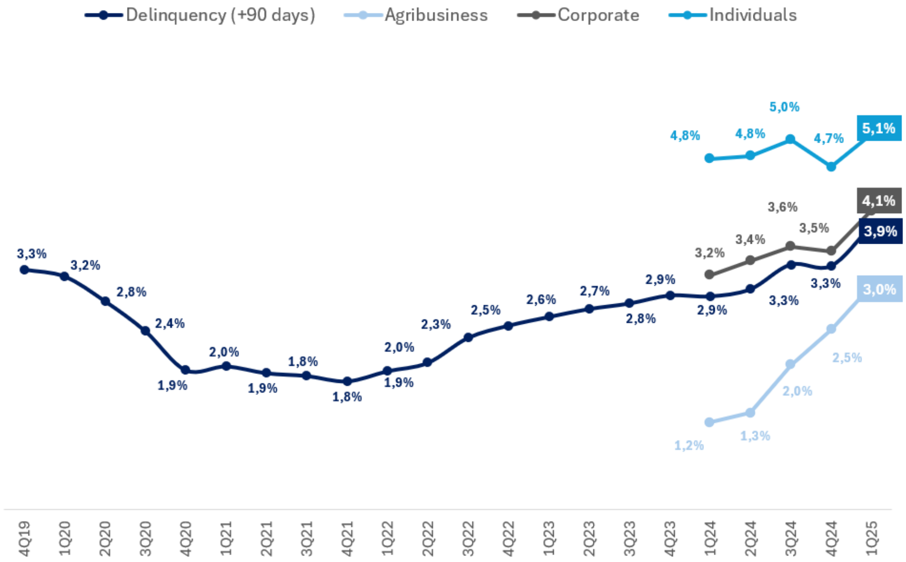
The **non-performing loan (NPL) ratio over 90 days rose to 3.9%**, an increase of **+0.5 pp QoQ** and **+1.0 pp YoY**. This deterioration was observed across the main portfolios, with a notable impact from **agribusiness**, where the **NPL ratio rose +0.6 pp QoQ and +1.8 pp YoY** to **3.0%**, reflecting a **significant decline in credit quality**. We also observed higher delinquency in the **Individuals** portfolio **(+0.4 pp QoQ; +0.3 pp YoY to 5.1%)** and in the **Corporate** segment **(+0.6 pp QoQ; +0.9 pp YoY to 4.1%)**.

The **renegotiated credit portfolio** was also affected by **resolution 4,966**, which changed the treatment of debt renegotiations and restructurings, broadening the understanding of this portfolio to one that includes **renegotiated and restructured credits (2Rs)**:

- **Renegotiated Credits**: operations with modified contractual terms, not necessarily indicative of elevated risk.
- **Restructured Credits**: renegotiations with significant concessions to clients due to reduced payment capacity, indicating higher credit risk.

In this context, the **2Rs portfolio** totaled **R$ 72.0 billion** in 1Q25, with a **90+ day NPL ratio of 20.0%** and a **coverage ratio of 230.6%**. During the quarter, **new renegotiations** reached **R$ 4.7 billion**, while **new restructurings** amounted to **R$ 4.8 billion**.

Figure 4: Delinquency rate (+90 days): Increase in the Main Portfolios



Source: Banco do Brasil and Genial

Administrative and Other Expenses/Income: Under Control, Growth Driven by Technology Investments

Total administrative expenses amounted to **R$ 14.6 billion** in 1Q25, marking a **-4.2% decline QoQ** and an **increase of +6.3% YoY**. The quarterly decline reflects **favorable seasonal effects**, while the annual increase still points to a **well-controlled cost trajectory**, with growth only slightly above inflation.

On a yearly basis, the main growth driver was the **"Other Administrative Expenses"** line **(+10.0% YoY)**, particularly **Communication and Data Processing expenses (+24.8% YoY)**, reflecting the bank's continued **investments in technology and digitalization**.

Personnel expenses remained under control, growing only **+2.8% YoY**, mainly influenced by the **salary adjustment** implemented in September 2024.

Taxes: Benefit from Interest on Equity (JCP)

In 1Q25, the tax line posted a **significant reduction**, with an **effective tax rate of -5%**. This was primarily due to the **payment** of **R$ 2.8 billion** in **Interest on Equity** (JCP), combined with **lower taxable income during the period**.

Capital: Capital Ratios Recover After 4Q24 Pressure

In 1Q25, the **Common Equity Tier 1 (CET1) ratio increased by +0.08 pp QoQ**, reaching **10.97%**, effectively returning to the bank's **internal target of 11%**. The **Basel Ratio also recovered**, rising **+0.38 pp QoQ to 14.1%**, after hitting its lowest level in recent years in 4Q24. The **Tier 1 Capital ratio rose +0.61 pp QoQ to 13.3%**, reflecting a rebound after the pressure observed in the previous quarter.

The improvement in capital indicators reflects **organic capital generation during the quarter**, combined with **positive effects from mark-to-market adjustments, foreign exchange variation, and other equity adjustments**. These effects were sufficient to **offset** the **negative impact of Resolution No. 4,966 (-0.27 pp)** and the **increase in risk-weighted assets (RWA)**.

Figure 5: Common Equity Tier 1 Ratio (CET1) | Rebuilding Core Capital (%)

Source: Banco do Brasil and Genial

Disclosure Section

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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