Banrisul (BRSR6) | 1Q25 Review: Discounted Valuation, But Low Profitability and New Regulation Still Cap Upside

May 15, 2025

Banrisul delivered a soft performance in 1Q25, broadly in line with market consensus and our projections. **Recurring net income totaled R$ 241 million**, down **-15.0% QoQ**, but up **+28.7% YoY**, supported by a weak comparison base. **Return on equity (ROE) declined to 9.3%**, remaining below the cost of capital and peers, reflecting a combination of **seasonal weakness and a significant increase in provisions**, influenced by the implementation of Resolution 4,966.

From a qualitative standpoint, **pre-tax income (EBT) rose +4.5% QoQ**, indicating better earnings composition, with **notable expense control**. However, this improvement was partially offset by **a higher effective tax rate**, which reduced bottom-line earnings for the quarter.

Despite signs of recovery, some challenges still remain. Net interest margins may stay under pressure due to high interest rates, while a tougher credit cycle is likely to demand further provisioning. In this context, **we do not see short-term catalysts that could drive a positive repricing of the stock**.

Although the valuation is discounted - trading at **4.7x P/E 2025e**, **3.9x P/E 2026e**, and **0.42x P/BV 2024** — we **reiterate our HOLD recommendation**, with a **target price of R$ 13.20**, implying a **limited upside of 3.0%**.

Banrisul (BRSR6 BZ Equity)

Recommendation: HOLD

Equity Value (R$ mn):
5.280

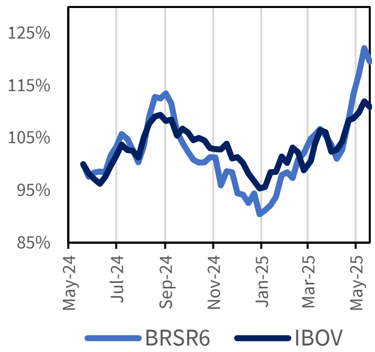
Outstanding Shares (mn):
409

Target Price 12M:
R$ 13,20

Current Price (R$):
12,91

Upside:
2,25%

Performance:



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The bank showed strong cost discipline, with expenses falling **-13.6% QoQ** and increasing only slightly **+1.8% YoY**. **The efficiency ratio improved by 9.4 pp QoQ, reaching 71.7%**, driven by lower operating expenses and a high comparison base in 4Q24.

The **loan portfolio grew a solid +3.1% QoQ and +18.8% YoY**, with highlights including: *Conta Única* (a corporate loan product with guarantees), personal loans, overdraft lines, long-term financing — boosted by BNDES transactions — and growth in FX operations.

Despite the strong loan book performance, **net interest income (NII) remained virtually flat (+0.2% QoQ)**, still under pressure from the mismatch between **predominantly fixed-rate assets and floating-rate liabilities**, which continues to compress the **net interest margin (NIM)** in a high interest rate environment. To mitigate this impact, the bank has been actively shifting its portfolio toward **Selic-linked products**, such as corporate credit and FX operations.

However, **asset quality deteriorated**, with **90-day delinquency rising to 2.2% (+0.4 pp QoQ)**, driven by the worsening in arrears.

Capital was pressured by the new regulation, with the **Common Equity Tier 1 (CET1) ratio falling to 12.8% (-1.0 pp QoQ)**. Management indicated that it plans to reduce credit limits granted as a way to **restore around 1 pp of capital** over the coming quarters.

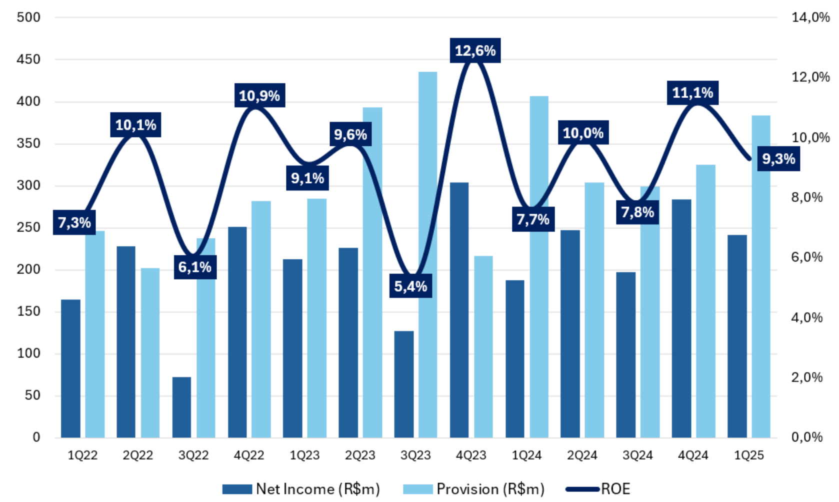
For 2025, based on the guidance disclosed in 4Q24, we estimate **net income of R$ 1.07 billion (+17.5% YoY)**, though **ROE is expected to remain limited at 10.1%** — still below the cost of capital and the levels observed among peers.

Figure 1: Banrisul (BRSR6) | 1Q25 Results: Weak Revenues, but Expense Control Supports Better Profit Composition

Review (R$m)	1Q25E	1Q25	4Q24	1Q24	Vs.Est	t/t	a/a
Reported Net Income	**244**	**241**	**284**	**188**	**-1,0%**	**-15,0%**	**28,7%**
Recurring Net Income	**244**	**241**	**284**	**188**	**-1,0%**	**-15,0%**	**28,7%**
Income Statement Summary							
Net Interest Income	**1.530**	**1.514**	**1.512**	**1.394**	**-1,0%**	**0,2%**	**8,6%**
Fee Income	567	550	582	536	-3,0%	-5,5%	2,6%
Other Revenues	133	135	157	114	1,2%	-14,0%	18,4%
Income from Equity Investments	26	23	24	25	-10,6%	-2,7%	-7,0%
Total Revenue	**2.257**	**2.223**	**2.274**	**2.068**	**-1,5%**	**-2,3%**	**7,5%**
Personnel Expenses	638	640	653	606	0,3%	-2,0%	5,5%
Other Administrative Expenses	577	520	565	508	-9,9%	-8,0%	2,3%
Tax Expenses	156	139	149	140	-10,8%	-6,2%	-0,3%
Other Operating Expenses	263	295	436	290	12,2%	-32,4%	1,6%
Total Administrative Expenses	**1.633**	**1.593**	**1.845**	**1.566**	**-2,4%**	**-13,6%**	**1,8%**
Provision for Loan Losses	**357**	**335**	**189**	**286**	**-6,3%**	**77,1%**	**17,0%**
Operating Income	**267**	**295**	**282**	**238**	**10,5%**	**4,4%**	**23,7%**
Tax	23	53	(2)	50	133,7%	-2456,4%	n.a.
Effective Tax Rate (%)	8,5%	18,0%	-0,8%	21,1%	9,5 pp	18,8 pp	-3,1 pp
Balance Sheet Summary							
Loan Portfolio	62.797	64.010	62.059	53.862	1,9%	3,1%	18,8%
Deposits	80.776	79.849	79.974	70.985	-1,1%	-0,2%	12,5%
Profitability							
Net Interest Margin (NIM)	4,99%	4,73%	5,04%	5,23%	-0,3 pp	-0,3 pp	-0,5 pp
Return on Equity (ROE)	9,42%	9,32%	11,13%	7,66%	-0,1 pp	-1,8 pp	1,7 pp
Return on Assets (ROA)	0,66%	0,65%	0,78%	0,59%	0,0 pp	-0,1 pp	0,1 pp
Efficiency Ratio	72,06%	71,69%	81,13%	75,69%	-0,4 pp	-9,4 pp	-4,0 pp
Asset Quality							
Delinquency 60 days	2,20%	2,57%	2,13%	2,79%	0,4 pp	0,4 pp	-0,2 pp
Delinquency 90 days	1,80%	2,17%	1,73%	2,39%	0,4 pp	0,4 pp	-0,2 pp
Stage 3 Coverage		5,00%					
Cost of Risk	2,05%	1,97%	2,15%	2,70%	-0,1 pp	-0,2 pp	-0,7 pp
NPL Formation – R$m	370	603	177	525	62,7%	240,7%	14,9%
Capital Adequacy							
Tier I Capital Ratio	13,8%	12,8%	13,8%	14,3%	-1,0 pp	-1,0 pp	-1,5 pp
BIS Ratio	17,2%	15,8%	17,2%	17,6%	-1,5 pp	-1,5 pp	-1,9 pp
Core Capital Ratio	13,8%	12,8%	13,8%	14,3%	-1,0 pp	-1,0 pp	-1,5 pp

Source: Banrisul and Genial

Figure 2: Earnings, Credit Cost, and ROE: Elevated Provisions Weigh on Profitability



Source: Banrisul and Genial

Quarterly Highlights

Loan Portfolio: Above-Market Growth Driven by SMEs, Personal Loans, and Overdrafts

In 1Q25, Banrisul's **loan portfolio posted solid growth of +3.1% QoQ and +18.8% YoY**, reaching **R$ 64.0 billion**. The bank's core segment, **Commercial Credit** (R$ 38.5 billion), grew **+2.2% QoQ and +11.7% YoY**, supported by strong performances in both **Individuals** (+2.0% QoQ and +12.5% YoY, totaling R$ 29.2 billion) and **Corporates** (+2.7% QoQ and +9.2% YoY, totaling R$ 9.3 billion).

Figure 3: Commercial Credit Mix

Composition of Commercial Credit - Individuals and Corporate (R$ m)	1Q25	4Q24	1Q24	% t/t	% a/a
Individuals	**29.155**	**28.579**	**25.904**	**2,0%**	**12,5%**
Payroll Loan	21.060	20.882	19.282	0,9%	9,2%
Revolving/Installment Credit Card	741	558	514	32,9%	44,1%
Credit Card (full payment) and Debit	2.508	2.713	2.355	-7,6%	6,5%
Personal Loan	2.852	2.606	2.145	9,5%	33,0%
Overdraft	673	569	564	18,3%	19,3%
Others	1.321	1.251	1.045	5,5%	26,4%
Corporate	**9.346**	**9.099**	**8.555**	**2,7%**	**9,2%**
Working Capital	5.825	5.999	6.690	-2,9%	-12,9%
Single Account	1.866	1.512	-	23,4%	n.a
Business Account	361	303	434	19,1%	-16,8%
Credit and Debit Card	250	237	193	5,4%	29,3%
Acquisition of Assets	260	245	277	6,3%	-5,9%
Others	783	802	962	-2,4%	-18,5%
Total Commercial Credit	**38.500**	**37.678**	**34.459**	**2,2%**	**11,7%**

Source: Banrisul and Genial

Growth in the individual loan portfolio was driven by a sharp increase in Revolving Credit Card balances (+32.9% QoQ) and Overdrafts (+18.3% QoQ). On the corporate side, expansion was mainly supported by growth in *Conta Única* operations (+23.4% QoQ) — a product launched in May 2024 — and in *Conta Empresarial* (+19.1% QoQ), reflecting the bank's strategic focus on increasing its footprint in the corporate segment.

The **Long-Term Financing portfolio continued to expand rapidly in 1Q25**, growing **+17.4% QoQ and an impressive +367% YoY**, reaching **R$ 2.36 billion**. The performance was largely driven by operations funded with **BNDES resources**, particularly under the **Agro emergency credit line**, aimed at rural producers. Most of these transactions were contracted in 4Q24, totaling approximately **R$ 850 million**.

Additionally, the **Foreign Exchange portfolio** (R$ 2.1 billion) grew **+5.4% QoQ and +86.2% YoY**, reflecting a higher volume of FX transactions during the period. Meanwhile, the **Agribusiness loan portfolio** (R$ 13.7 billion) remained virtually flat on a quarterly basis, but still showed **solid annual growth of +18.2% YoY**.

The **"Other" loan portfolio** also recorded strong growth, rising from **R$ 161 million in 4Q24 to R$ 807 million in 1Q25**. This increase was driven by the **reclassification of debenture balances**, which, under the new **COSIF 1.5** guidelines and **Resolution 4,966**, are now accounted for within the loan portfolio — previously recorded under Treasury. This change added **R$ 648 million** to the loan balance for the quarter, positively impacting both quarterly and annual comparisons.

Net Interest Income (NII): Sequentially Stable

Starting this quarter, **credit recovery income is now deducted directly from the allowance for loan losses**, no longer contributing to net interest income. To ensure comparability, the bank restated previous quarters based on the new accounting methodology — and we have adjusted our estimates accordingly.

Net interest income (NII) totaled R$ 1.5 billion in 1Q25, virtually flat on a sequential basis (**+0.2% QoQ**) but showing a **solid +8.6% YoY increase**. Performance was mainly supported by a **higher average loan portfolio balance** and **increased average yields on treasury investments**, although **partially offset by rising funding costs**, a reflection of the still-elevated Selic rate.

The evolution of NII continues to be affected by the **mismatch between assets and liabilities** — while a significant portion of assets yield fixed rates (e.g., payroll loans, mortgages, and general personal loans), most liabilities are floating rate, indexed to the Selic. This imbalance makes results more sensitive to interest rate hikes, **raising the cost of funding** and **compressing both NIM** (-0.3 pp QoQ; -0.5 pp YoY) and **loan spreads**.

In response, the bank has been **shifting its portfolio mix toward corporate lending**, where returns are generally linked to the Selic rate, helping to better align asset and liability structures.

Fee Income: Deceleration in the Quarter

Fee income totaled R$ 550 million in 1Q25, down **-5.5% QoQ**, but with a modest **+2.7% YoY increase**.

The quarterly decline reflects **typical seasonality at the beginning of the year** and the impact of **Resolution 4,966**, which reclassified revenues and expenses related to credit operations into the NII line – which are now recognized on a deferred basis over the life of the loans.

Other **negative contributors** included declines in revenues from **Banrisul Pagamentos** (-12.1% QoQ), **foreign exchange operations** (-24.3% QoQ), and **insurance brokerage commissions** (-5.1% QoQ). On a year-over-year basis, the increase was primarily supported by higher income from foreign exchange services (+39.5% YoY) and credit card operations (+11.1% YoY).

Expenses: Under Control, Positive Surprise

In 1Q25, **total administrative expenses amounted to R$ 1.6 billion**, marking a **-13.6% QoQ decline** and a **slight +1.8% YoY increase**.

The quarterly decrease was mainly driven by a **-32.5% QoQ drop in other operating expenses**, influenced by lower spending on renegotiation discounts, loan portability, and fees from the INSS partnership agreements.

On a yearly basis, the modest increase reflects **controlled personnel expenses (+5.5% YoY)** and other administrative costs (+2.3% YoY), as well as a slight decline in tax expenses (-0.3% YoY).

As a result, the **efficiency ratio improved significantly**, falling **-9.4 pp QoQ and -4.0 pp YoY**, ending the quarter at **71.7%**. This reflects strong expense control amid revenue expansion.

During the conference call, management stated that labor-related expenses declined in 1Q25 and are expected to remain at lower levels in the coming quarters. On the other hand, **civil litigation expenses**, which temporarily declined this quarter, are **expected to return to more recurring levels**, in line with figures observed in previous quarters.

Asset Quality: Higher Provisions and Rising Delinquency

In 1Q25, **provisions (net of recoveries) totaled R$ 335 million**, a **strong increase of +76.8% QoQ and +16.9% YoY**. This growth was driven by the **adoption of Resolution 4,966**, which introduces the expected credit loss model and **requires higher coverage levels**, including for exposures that were previously unprovisioned.

Additionally, it is worth noting that **4Q24 benefited from a higher volume of recoveries**, creating a tougher comparison base and amplifying the quarterly variation.

The 90-day delinquency ratio rose by +0.4 pp QoQ, reaching 2.2%, although it still showed **an improvement of -0.2 pp YoY**. The sequential deterioration was led by the **individual segment,** where delinquency **increased by +0.5 pp QoQ**.

Despite the sharp increase in provisioning expenses, the **coverage ratio declined -2.9 pp QoQ**, reflecting the growth in overdue operations. However, on a yearly basis, the indicator **improved by +30.4 pp**, reaching **239.7%**, still at a **comfortable level**.

Tax: Benefited by Interest on Equity

In 1Q25, the **effective tax rate was 18%**, resuming its normalization path after the atypical result in 4Q24, when the bank recorded a negative tax rate. Despite the reversal, the rate **was still favorably impacted by tax benefits from JCP payments**, in addition to the **positive effect of equity income**, which helped reduce the taxable base for the period.

Capital: Impact of Resolution 4,966

Resolution 4,966 also had a negative impact on the bank's capital, by increasing risk-weighted assets (RWA), which pressured the **Common Equity Tier 1 (CET1) ratio**, **down -1.0 pp QoQ to 12.8%** — still comfortably above the minimum regulatory requirement of 8.5%. The **Basel Ratio** reached **15.8%**, declining **-1.5 pp QoQ and -1.9 pp YoY**.

During the conference call, management indicated that it is evaluating **strategies to optimize credit limits**, including the reduction of credit lines available to clients, as a way to **restore capital levels to prior levels**, which would add approximately **1 pp to the bank's capital ratios**.

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under Review	Under review	5%

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