

## CREDIT OPINION

8 March 2024

Update

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### RATINGS

#### Banco Daycoval S.A.

Domicile	Sao Paulo, Sao Paulo, Brazil
Long Term CRR	Ba1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Ba2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Ba2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

### Contacts

Lucas Viegas +55.11.3956.8717  
VP-Senior Analyst  
lucas.viegas@moodys.com

Alexandre Albuquerque +55.11.3043.7356  
VP-Senior Analyst  
alexandre.albuquerque@moodys.com

Anita Meyer +55.11.3043.6064  
Ratings Associate  
anita.meyer@moodys.com

Ceres Lisboa +55.11.3043.7317  
Associate Managing Director  
ceres.lisboa@moodys.com

» Contacts continued on last page

## Banco Daycoval S.A.

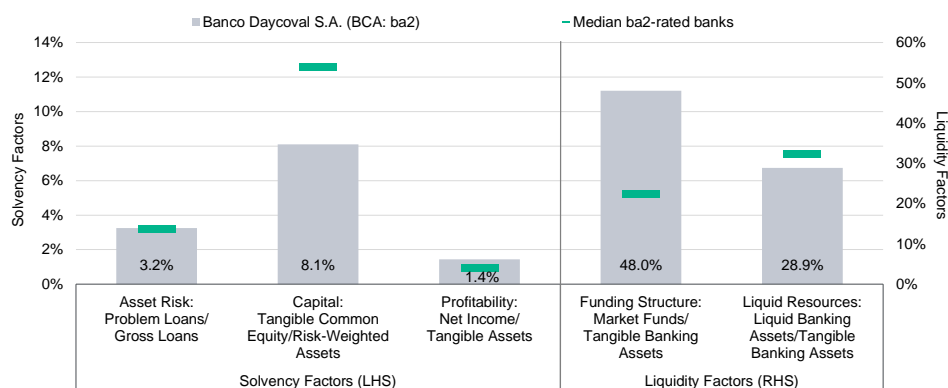
### Update to credit analysis

#### Summary

[Banco Daycoval S.A.](#)'s (Daycoval) has a Baseline Credit Assessment (BCA) of ba2, which incorporates the bank's consistent earnings generation, historically supported by a disciplined risk profile, relatively low concentration risk and high reserve buffers. Daycoval's adequate leverage ratios and capitalization are also important factors that support the bank's operations in a challenging credit environment. Daycoval's core businesses are lending to small and medium-sized enterprises (SMEs), large companies, vehicle financing and payroll loans to public servants, where margins are likely to be compressed because of fierce competition, particularly in the secured products. Daycoval also earns fees from asset management and capital market activities. Daycoval's global scale deposit rating is Ba2, based on its BCA of ba2, which is at the same level as the Government of [Brazil](#)'s sovereign debt rating of Ba2.

Exhibit 1

#### Rating scorecard - Key financial ratios As of December 2023



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.

Source: Moody's Ratings

## Credit strengths

- » Traditional lender to corporates and SMEs, with a highly regarded management team and strong risk governance
- » Stability in its core earnings stream, supported by portfolio granularity and product diversification
- » Adequate capitalization
- » Diversified funding structure, which supports the expansion of its retail portfolio (longer tenor), avoiding tenor mismatches

## Credit challenges

- » Increasing competition on the SME and payroll business is likely to strain margins.
- » Upward pressure on asset risk stemming from the SME portfolio as delinquency in the segment increases industrywide.

## Rating outlook

Daycoval's ratings have a stable outlook, reflecting our view that the trajectory of the bank's solvency and liquidity over the next 12-18 months will be in line with its Ba2 rating.

## Factors that could lead to an upgrade

There is currently no upward pressure on Daycoval's rating because it is at the same level as Brazil's sovereign bond rating. An upgrade of Brazil's bond rating would likely lead to upward pressure on the bank's BCA and deposit rating.

## Factors that could lead to a downgrade

Negative rating pressure would arise if the sovereign bond rating is downgraded because the bank's BCA is at the same level as the sovereign rating. Pressure on the ba2 standalone assessment could result from a deterioration in Daycoval's asset quality, combined with a significant reduction in its earnings, which could arise from a rapid deterioration in the bank's corporate and SME loan book or from increasing borrower-concentration risk. Significant loan growth could particularly compromise the bank's capital structure and asset-quality indicators, whose preservation is key at this rating level.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Banco Daycoval S.A.

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (BRL Million)	77,097.6	69,704.9	61,931.6	49,159.8	34,845.0	22.0 <sup>4</sup>
Total Assets (USD Million)	15,871.5	13,202.3	11,106.2	9,464.4	8,662.1	16.3 <sup>4</sup>
Tangible Common Equity (BRL Million)	5,313.0	4,880.3	4,314.0	3,840.2	3,108.5	14.3 <sup>4</sup>
Tangible Common Equity (USD Million)	1,093.8	924.3	773.6	739.3	772.7	9.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	3.2	1.9	1.7	1.8	1.7	2.1 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	8.1	7.9	7.9	9.9	10.9	8.9 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.1	13.9	12.4	11.1	9.3	13.6 <sup>5</sup>
Net Interest Margin (%)	7.4	7.2	8.8	10.4	11.7	9.1 <sup>5</sup>
PPI / Average RWA (%)	4.6	4.4	6.4	8.3	7.7	6.3 <sup>6</sup>
Net Income / Tangible Assets (%)	1.4	1.6	2.3	2.4	2.9	2.1 <sup>5</sup>
Cost / Income Ratio (%)	46.6	46.1	34.9	32.3	39.4	39.8 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	48.0	52.5	45.6	45.7	43.2	47.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	28.9	22.8	20.8	20.0	14.0	21.3 <sup>5</sup>
Gross Loans / Due to Customers (%)	184.1	240.9	208.5	211.8	254.5	219.9 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in

## Profile

Banco Daycoval S.A. (Daycoval) is a Sao Paulo-based full-service bank that provides loans to corporates, SMEs, auto finance and payroll loans to individuals. The bank has 50 offices that offer lending products to SME, as well as a branch in the Cayman Islands. Established in 1968, Daycoval is 100% owned by the Dayan family. As of June 2023, Daycoval held a 0.5% market share of the system's assets, 0.7% of loans and 0.4% of total deposits.

## Detailed credit considerations

### Increasing asset risk is mitigated by stringent credit standard and adequate provisioning

The assigned score of baa3 acknowledges Daycoval's well-established risk guidelines and disciplined credit risk standards, despite the recent increase in loan delinquency. As of December 2023, problem loans to gross loans increased to 3.2%, after three years below 2%, reflecting the default of large retailer (90bps out of 130 bps increase), an industrywide asset risk deterioration and Daycoval's reduction on origination of new loans in 2023. The expanded credit portfolio reached BRL57.2 billion in December 2023, an increase of 3.2% compared to one year prior. The bank also maintained its conservative provisioning policy and the allowance for loan losses ended with BRL2.1 billion, covering 1.34x of its problem loans as of December 2023.

Daycoval's current credit expansion maintained its strategy that prioritizes shorter-term loans to SMEs that are strongly collateralized, which would allow it to rapidly reduce the size of its loan book in case of an unexpected turn in macro conditions. As of December 2023 Daycoval's core operation to companies that accounts to 70% of its total loans, decreased 2.6% from a year earlier, while delinquency level raised to 2.2% from 0.6% a year earlier, due to the slower economic activity and rising defaults in the SME segment. The bank also continue to diversify its risk with its secured payroll lending franchise that accounted to 25% of the loan book and expanded 4.9% year-over-year in December 2023 with delinquency ratios flat at 3.4%. Higher asset risk stems from the bank vehicle financing that accounted to 3.8% of the total loans, and presents 9.0% delinquency ratio in December 2023, and should continue to negatively weigh on the problem loan metric during the next 12 to 18 months.

Although the bank is supported by a stringent risk control over collateral-backing credit activities, the smaller companies segment remain highly vulnerable to uncertainties around the timing and traction of the economic conditions. Nonetheless, we foresee an improvement in Daycoval's asset quality, driven by the combination of lower inflation and decreasing interest rates that will foster an acceleration on new loan origination with superior asset quality.

### Replenishment capacity and shareholders commitment provide stability to capital metrics

The assign score of ba3 incorporates Daycoval's adequate capitalization, consistent internal capital generation and the commitment from its shareholders. On regulatory basis Daycoval reported a Common Equity Tier 1 capital ratio of 11.8% (above the minimum requirement of 8%) higher than 10.9% reported in December 2022 and 10.8% in December 2021. Of note, the controlling shareholding family reinvested BRL 954 million out of BRL 1.1 billion paid in dividends in the same period through perpetual bonds accounted as additional tier 1 capital. This reinvestments provides stability to regulatory capital ratios and reflects the bank's conservative risk guidelines pursued by management, providing strong loss-absorption capacity in times of stress.

In December 2023, Daycoval reported a tangible common equity to risk weighted assets ratio of 8.1% , up from 7.85% in December 2022. Our metric is adjusted by applying a 100% risk weight to the bank's government securities holdings and partial credit to deferred tax assets related to the provisions for loan losses, according to our standard adjustments for Brazilian banks. For the next twelve to eighteen months we expect Daycoval's capitalization to remain fairly stable with the bank cautiously resuming loan growth and replenishing capital thorough earnings retention.

### Profitability will be supported by a more favorable operating environment

The assign score of baa2 reflects Daycoval's well-established position that has supported historically steady profitability. As of Decemeber 2023, Daycoval's reported a net income of BRL1.1 billion, flat from 2022, benefited from higher interest income, offset by higher funding costs, a sharp increase on loan loss provision expenses that went up 61% due to the deterioration in the portfolio, and higher operating expenses. Despite the challenges Daycoval's net income-to-tangible assets ratio finished the year at 1.4% in 2023, slightly lower than 1.6% in December 2022, but down from 2.3% for 2021, but still above that of other medium-sized banks in Brazil with similar business profiles. Daycoval's future earnings generation will be bolstered in 2024 by robust labor market, and inflation returning to Central Bank's target range and decreasing interest rates. During 2024, we expect Daycoval to resume loan growth, specially on its core corporate and SME business, as well continue to benefit from its business diversification.

Competition on its core segment will likely arise from fintechs as well as from larger banks that will continue to search for yield in the SME segment and secured individual lending on payroll loans. Although these factors have negative implications for the bank's future earnings generation, we expect them to be partially offset by a higher fee-based income, as well as efficiency gains from innovation and technology.

### Conservative ALM and a diversification of funding sources partially mitigate the banks concentration on market funds

Daycoval has vigilant liquidity management and funding diversification, which support its business expansion into longer-term loans. As a niche bank, however, Daycoval is largely exposed to a highly confidence-sensitive wholesale funding mix, an intrinsic feature of medium-sized institutions. As of December 2023, the market funds accounted for 48% of tangible banking assets in line with its peers in the corporate & SME lending segment. Counterbalancing this negative driver, Daycoval has been focusing its efforts on successfully replacing short-term funding with medium and long term funding sources. In the same period, deposits and deposit-like instruments represented roughly 48.8% of total funding; foreign-currency resources, including bonds, accounted for 13.4%; and local-currency bank notes (letras financeiras) 37%, including subordinated notes.

As a result Daycoval has been able to keep favorable tenor gap in the maturity of its assets and liabilities, partially mitigating the higher concentration on market funds. However this funding structure leads the bank to operates with lower liquidity levels when compared to its peers, with its liquid banking assets representing 29.1% of tangible banking assets, while the average for peers is 40% for the same ratio. The composition of those elements were factored into our combined liquidity score of ba3.

### Daycoval's scores are influenced by Brazil's Moderate Macro Profile

Brazil's (Ba2 stable) Macro Profile of "Moderate" is supported by the country's large and highly diversified economy with limited exposure to external financing risks. It also incorporates our improvements in the business environment for banks from recent reforms, including the independence of the central bank; the state-owned company law; labor reform; and a collateral framework that reduced uncertainties about judicial disputes and the potential for political intervention in the financial system. We forecast a real GDP growth to moderate in 2024 and 2025 to 2.0% after growing around 3.0% in the previous couple of years.

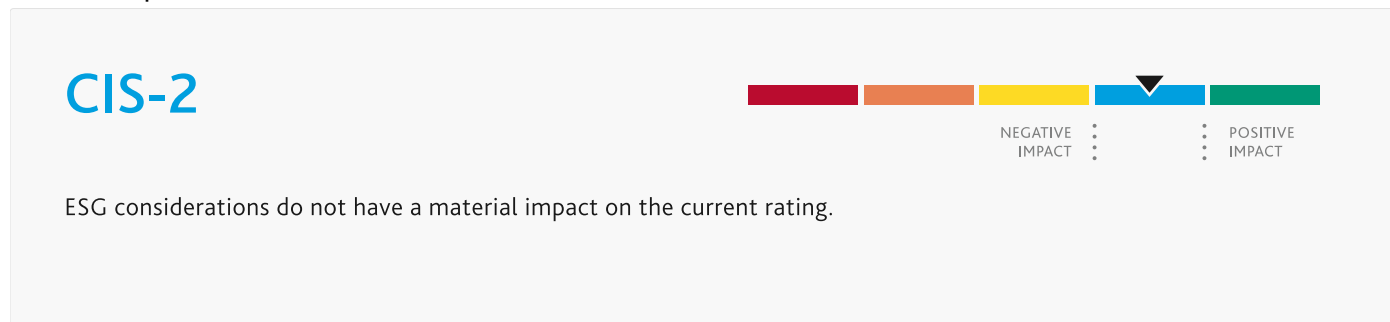
Our assessment acknowledges the current momentum as Brazil's banking system moves out of the credit cycle's downturn, with declining but still-high delinquency ratios and household indebtedness amid tighter liquidity on global capital markets, which will continue to pressure credit conditions ahead.

## ESG considerations

### Banco Daycoval S.A.'s ESG credit impact score is CIS-2

Exhibit 3

#### ESG credit impact score

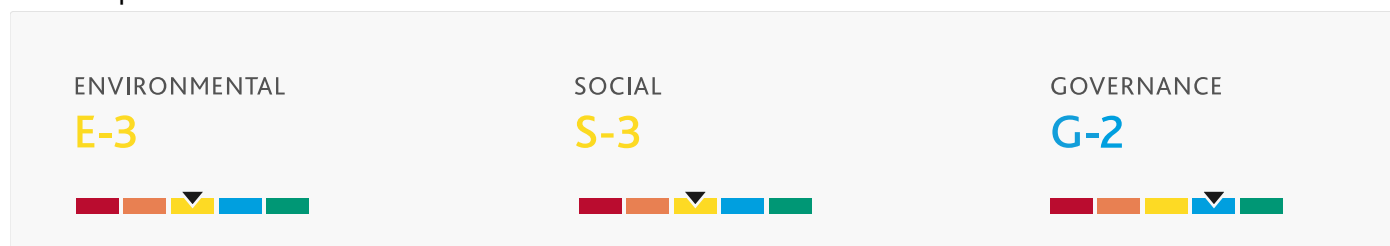


Source: Moody's Ratings

Daycoval's **CIS-2**, reflects the limited credit impact of environmental and social factors on the rating to date. The bank has a solid track record and a consistent earnings recurrence, on the back of its sound risk management practices.

Exhibit 4

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Daycoval faces moderate exposure to environmental risks because of its portfolio exposure to carbon transition risk, as a bank with large exposure to the corporate segment. In line with its peers, the bank is facing mounting regulatory and stakeholder pressure to meet broader carbon transition goals.

### Social

Daycoval faces moderate social risks mainly related to customer relations. The bank has a large share of its loans portfolio with corporate clients, resulting in lower risk from customer relations relative to large retail banks. Cyber and personal data risks, particularly associated with its smaller retail operation, are mitigated by a sound IT framework. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

### Governance

Daycoval faces low governance risks, and its risk management, policies and procedures are in line with industry best practices. The bank's ownership is controlled by one family that also holds the majority of the board. The associated governance risks are mitigated by the management team's track record of sustained earnings generation and delivering on strategic goals.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

No affiliate support is assigned to Daycoval. However, a strong commitment from its shareholders is indicated through capital injection, when needed, and through a conservative leverage (credit to equity) ratio maintained by the bank through the cycles.

### Government support

We do not consider any probability of Daycoval receiving systemic support because of the bank's modest share in the deposit market.

### Counterparty Risk (CR) Assessment

#### Daycoval's CR Assessment is positioned at Ba1(cr)/Not Prime(cr)

Daycoval's CR Assessment of Ba1(cr) is one notch above its Adjusted BCA of ba2, based on our view that senior obligations represented by the CR Assessment will more likely be preserved than senior unsecured debt to minimize losses, avoid the disruption of critical functions and limit contagion. The CR Assessment reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Daycoval's assigned BCA of ba2 is at the middle of the scorecard-indicated BCA range (see Exhibit 5). Moreover, the Financial Profile score is ba2, the same as its BCA, which is at the same level as Brazil's Ba2 sovereign bond rating.

## Rating methodology and scorecard factors

Exhibit 5

Banco Daycoval S.A.

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Moderate</b>	<b>100%</b>				
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.2%	baa3	↔	baa3	Collateral and provisioning coverage	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	8.1%	b1	↔	ba3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.4%	baa2	↔	baa2	Earnings quality	Expected trend	
Combined Solvency Score		ba1		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	48.0%	b3	↔	b3	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	28.9%	baa3	↔	baa3	Expected trend		
Combined Liquidity Score		ba3		ba3			
Financial Profile				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Ba2			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				0			
Adjusted BCA				ba2			
<b>Instrument Class</b>	<b>Loss Given Failure notching</b>	<b>Additional notching</b>	<b>Preliminary Rating Assessment</b>	<b>Government Support notching</b>	<b>Local Currency Rating</b>	<b>Foreign Currency Rating</b>	
Counterparty Risk Rating	1	0	ba1	0	Ba1	Ba1	
Counterparty Risk Assessment	1	0	ba1 (cr)	0	Ba1(cr)		
Deposits	0	0		0	Ba2	Ba2	
Senior unsecured bank debt	-	-		0		Ba2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 6

Category	Moody's Rating
<b>BANCO DAYCOVAL S.A.</b>	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits	Ba2/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Senior Unsecured	Ba2

Source: Moody's Ratings



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## Contacts

Lucas Viegas  
VP-Senior Analyst  
lucas.viegas@moodys.com

+55.11.3956.8717

Ceres Lisboa  
Associate Managing  
Director  
ceres.lisboa@moodys.com

+55.11.3043.7317

Alexandre Albuquerque  
VP-Senior Analyst  
alexandre.albuquerque@moodys.com

+55.11.3043.7356

Anita Meyer  
Ratings Associate  
anita.meyer@moodys.com

+55.11.3043.6064

## CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454