

RATING ACTION COMMENTARY

Fitch Affirms BRDE's IDRs at 'BB'; Outlook Stable

Wed 06 May, 2026 - 12:46 PM ET

Fitch Ratings - São Paulo - 06 May 2026: Fitch Ratings has affirmed Banco Regional de Desenvolvimento do Extremo Sul's (BRDE) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BB' and Short-Term Local and Foreign Currency IDRs at 'B'. Fitch has also affirmed BRDE's National Long-Term Rating at 'AAA(bra)' with a Stable Rating Outlook and National Short-Term Rating at 'F1+(bra)'. The Rating Outlook for the IDRs is Stable.

KEY RATING DRIVERS

Ratings Driven by Shareholder Support: BRDE's ratings are driven by Fitch's expectation of support from its shareholders, the states of Paraná, Santa Catarina and Rio Grande do Sul. This is reflected in the bank's Shareholder Support Rating (SSR) of 'bb', aligned with Paraná's IDRs of 'BB'/Stable. Fitch does not publicly rate Santa Catarina or Rio Grande do Sul, but the creditworthiness and support propensity of all three shareholder states remain central to the ratings. BRDE's legal structure, public development mandate, equal ownership by the three states and absence of dividend distributions reinforce Fitch's view that support would be timely and sufficient, if needed.

High Propensity to Support: Fitch believes BRDE's shareholder states have a strong incentive to support the bank, given its strategic role in executing regional development policy and financing long-term investment across southern Brazil. BRDE remains closely aligned with the public policy priorities of Paraná, Santa Catarina and Rio Grande do Sul, including support for productive chains, SMEs, rural producers, infrastructure, innovation, sustainability and municipal development. The bank's role as an institutional channel for state-supported programs reinforces its policy importance and supports Fitch's assessment of a high propensity to provide support.

Regional Development Role: BRDE's franchise remains anchored in its clearly defined mandate as a regional development bank. The bank operates within the CODESUL (Conselho de Desenvolvimento e Integração Sul) development framework and maintains a visible role in financing productive investment across most municipalities in southern Brazil, with additional activity in Mato Grosso do Sul. Its updated 2025-2030 strategic plan reinforces alignment with regional priorities by emphasizing productive chains, cities, innovation and environmental sustainability. Fitch views this mandate-driven franchise as credit-supportive because it strengthens BRDE's institutional relevance to its shareholder states.

Business Model Remains Focused: BRDE's operating model is straightforward and consistent with its public policy role. The bank has no subsidiaries, operates with lean governance and combines direct lending with indirect origination through cooperatives and partner institutions. This structure supports transparency, preserves focus on the core mandate and allows BRDE to reach rural producers and smaller companies without relying on a costly branch network. The bank's growing involvement in public-private partnerships structuring, municipal advisory mandates and innovation-linked financing broadens its execution platform without materially changing its core risk profile.

No VR Assigned: Fitch does not assign BRDE a Viability Rating, as the bank's business model is largely determined by its policy role. BRDE's standalone financial profile is therefore not the primary driver of the ratings, although its conservative risk appetite, strong capitalization, sound asset quality and prudent liquidity management remain important considerations in Fitch's overall credit assessment.

Moderate Risk Profile: BRDE's risk profile remains moderate and consistent with its role as a regional development bank focused on long-term lending. Growth remains disciplined. BRDE's credit portfolio reached BRL24.1 billion in 2025, increasing 12.1% year on year. New approvals totaled BRL5.6 billion, down 5.5% from 2024, but still within historical levels. Growth was stronger in rural producers and micro and small enterprises, supported by public programs and the bank's development role. Lending to municipalities and medium-sized companies declined. In Fitch's view, the loan mix remained aligned with BRDE's traditional areas of expertise and did not materially broaden the risk profile.

Strong Asset Quality: BRDE's asset quality remained sound in 2025, supported by conservative underwriting and a largely performing loan book. Gross loans totaled BRL24.2 billion at end-2025, with Stage 1 exposures representing 84.8% of the portfolio, Stage 2 loans 12.0% and Stage 3 loans 3.2%. The impaired loan ratio remains contained for a development bank with regional concentration and long-tenor lending. Flood-related

renegotiations in Rio Grande do Sul totaled BRL1.25 billion, or 5.15% of the loan portfolio, and remain a monitoring point, but their performance does not indicate broader asset-quality deterioration.

Prudent Provisioning: BRDE's provisioning remains conservative and well aligned with expected loss dynamics. Loan loss reserves totaled BRL640.5 million at end-2025, equivalent to 2.6% of gross loans. Provisions are strongly concentrated in impaired assets, with Stage 3 reserves accounting for BRL568.7 million, or 88.8% of total reserves. Stage 3 coverage stood at 72.5%, providing a robust buffer against loss realization.

Profitability Rebounds: BRDE's earnings improved materially in 2025, mainly reflecting lower credit costs after elevated provisioning in 2024. Operating profit increased 73% year on year, while loan impairment charges declined to BRL133 million from BRL344 million following provisions related to borrower reclassifications and the severe floods in Rio Grande do Sul in the prior year. Recoveries of previously written-off loans remained meaningful at BRL245 million. Fitch views the recovery in profitability as credit-supportive, as it strengthens internal capital generation without indicating a shift toward higher-risk revenue sources.

Strong Capitalization: BRDE's capitalization remains a key credit strength. The bank's Common Equity Tier 1 ratio reached 19.9% at end-2025, materially above its 14% internal minimum and 16% management target. This provides robust headroom to absorb credit, provisioning or valuation shocks without impairing the bank's strategic role. Capital generation is supported by retained earnings and the absence of dividend distributions. Fitch views BRDE's capital management as conservative, with risk appetite calibrated around preserving capital buffers rather than maximizing profitability.

Funding Diversification Advances: BRDE's funding profile continues to diversify, although long-term development funding remains the main pillar. Banco Nacional de Desenvolvimento Econômico e Social (BNDES) accounted for close to 57% of total funding in 2025, which is still relevant but materially below historical levels. The gradual reduction in BNDES's dependence is credit supportive because it improves funding flexibility and reduces concentration in a single source.

BRDE also continued to expand market access through instruments such as development credit notes, bank deposit certificates and financial bills. The bank's liability structure remains broadly aligned with the maturity of its assets, which is important given the long-tenor nature of development lending. BRDE also maintains a portfolio of liquid financial

assets, mainly fixed-income fund quotas, supporting cash management and providing an additional liquidity buffer.

RATING SENSITIVITIES

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

--As BRDE's ratings are driven by the SSR, they can be downgraded if one or more of its shareholders' creditworthiness deteriorates;

--There may also be a downgrade if Fitch perceives a deterioration of the propensity of the controlling states to support BRDE.

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

--An improvement of Fitch's view of the creditworthiness of the three shareholders states;

--An improvement of Fitch's view of the three shareholders' propensity to support BRDE.

The National Scale rating cannot be upgraded, as it is at the maximum level of the scale.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BRDE's ratings are driven by the support from the shareholders Paraná State, Rio Grande do Sul State and Santa Catarina State.

ESG CONSIDERATIONS

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 ⚡
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)	LT IDR BB Rating Outlook Stable Affirmed	BB Rating Outlook Stable
	ST IDR B Affirmed	B
	LC LT IDR BB Rating Outlook Stable Affirmed	BB Rating Outlook Stable
	LC ST IDR B Affirmed	B
	Natl LT AAA(bra) Rating Outlook Stable Affirmed	AAA(bra) Rating Outlook Stable
	Natl ST F1+(bra) Affirmed	F1+(bra)
	Shareholder Support bb Affirmed	bb

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Raphael Nascimento**

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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 \(pub. 21 Mar 2025\)](#)

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Banco Regional de Desenvolvimento do Extremo Sul (BRDE)

EU Endorsed, UK Endorsed

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