Banco do Brasil (BBAS3)

Recovery Pushed Further Out as Credit Pressures Intensify

3Q26 Earnings Review

Banco do Brasil reported significantly weaker-than-expected 3Q26 results, with adjusted net income of R$1.3 bn (-67.5% QoQ), 54% below XPe, and ROE falling to just 2.8%, versus our 6.0% estimate. The disappointment was broad-based, reflecting weaker NII, higher credit costs and additional operating pressures. The quarter also raises questions about the pace of earnings recovery, as asset quality deteriorated further in Agribusiness, while Individuals remained under pressure and leading credit indicators suggested the risk of further deterioration ahead. As a result, management sharply revised its 2026 guidance, cutting expected earnings from R$18–22 bn to R$9–11 bn and raising projected credit costs to R$80–83 bn. In addition, the bank reduced its payout to the statutory minimum of 25% for 2026 and 2027, with no interim distributions planned for 2027. **Taken together, these developments suggest a slower earnings recovery, with downside risks to consensus estimates, particularly for 2027.**

NII: Weakness extends beyond credit costs. Gross NII declined 5.5% QoQ to R$26.0bn, 6.2% below XPe, with both client (-2.5% QoQ) and market NII (-22.6% QoQ) contributing to the sequential decline. The client spread narrowed to 8.12%, from 8.36% in 2Q26, reflecting weaker revenues from Individuals and Agribusiness. Meanwhile, credit costs increased 14.9% QoQ to R$21.2bn, 5% worse than our forecast, with gross expected-loss expenses rising 17.2% sequentially. As a result, risk-adjusted NII dropped 47% QoQ to R$4.7bn, while the risk-adjusted client spread fell to just 0.56%, from 1.73% in 2Q26. This is concerning, as weaker underlying spreads and rising provisioning needs are simultaneously eroding the bank's earnings capacity.

Asset quality: Agribusiness deterioration is the main disappointment. Agri credit quality deteriorated sharply during the quarter. NPL 90+ increased to 6.92%, from 6.27% in 2Q26, while new NPL formation surged to R$14.7bn, from R$5.7bn. Write-offs also accelerated materially, reaching R$13.2bn, versus R$5.3bn in the previous quarter. The rollout of MP 1,376 remains at an early stage, with just R$163mn in operations through September, suggesting that its potential benefits have yet to materialize. The combination of worsening credit indicators and limited near-term relief raises questions about the timing of the expected Agri recovery.

Banco do Brasil (BBAS3)	Neutral
Target Price (R$/sh.)	21.0
Current Price (R$/sh.)	16.9
Upside (%)	*24.3%*
Market Cap (R$ bn)	96.8
Free Float (%)	*49.6%*
ADTV (R$ mn)	336

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Figure 01: Banco do Brasil 3Q26 Earnings Results

Key Figures | R$ mn	3Q26	3Q26E	A/E	2Q26	Q/Q	3Q25	Y/Y
NII	**25,982**	**27,695**	**-6%**	**27,483**	**-5%**	**26,365**	**-1%**
Cost of Credit	(21,234)	(20,230)	5%	(18,477)	15%	(17,928)	18%
Fees & Commissions	9,275	9,236	0%	9,125	2%	8,863	5%
Op. Expenses	(17,816)	(16,730)	6%	(16,714)	7%	(16,078)	11%
EBT	**(832)**	**3,187**	**-126%**	**5,002**	**-117%**	**4,322**	**-119%**
Net Income	1,270	2,787	-54%	3,908	-68%	3,785	-66%

Individuals: Some improvement in leading indicators, but still far from stabilization. Asset quality continued to weaken, with NPL 90+ rising to 9.14%, from 8.41% in 2Q26, and credit card delinquencies reaching 16.35%. Coverage declined further to 114.2%, from 125.8%, leaving a thinner reserve cushion against an increasingly stressed portfolio. On a more constructive note, new NPL formation moderated to R$9.3bn, from R$11.8bn in the previous quarter, while early delinquency was broadly stable. Although encouraging, these developments are not yet sufficient to signal a sustained inflection, given the challenging macroeconomic backdrop.

Operating performance and capital: Limited room to absorb further deterioration. Fee income remained resilient at R$9.3bn (+4.6% YoY), while administrative expenses grew 4.8% YoY, reflecting relatively disciplined cost management. However, these offsets were insufficient to compensate for weaker risk-adjusted revenues and higher other operating expenses. The bank reported a pre-tax loss of R$832mn, with a R$3.1bn positive tax contribution supporting adjusted net income. Capital also deteriorated, with CET1 declining 47bps QoQ to 10.80%, largely reflecting prudential adjustments and limited organic capital generation. In our view, the combination of depressed profitability and tighter capital ratios further limits flexibility for balance sheet growth and shareholder distributions.

Dividends: Payout reduced to the statutory minimum, underscoring capital constraints. Alongside the results, Banco do Brasil announced a revision to its shareholder remuneration policy for 2026 and 2027, explicitly citing persistent Agri delinquencies, higher credit costs and pressure on capital projections. For 2026, the payout was reduced from 30% to 25% of adjusted net income, the statutory minimum, with the remaining interim distributions previously scheduled for November canceled. Any final distribution required to meet the minimum payout will be announced in February 2027 and paid in March. For 2027, the board also established a 25% payout, with no interim dividends or interest on capital to be declared or distributed during the year. The annual distribution will be assessed after year-end and remain subject to capital adequacy, with any unpaid mandatory amount allocated to a special reserve if necessary. We view the decision as a clear indication that capital preservation has become a priority. With profitability under pressure and CET1 declining to 10.8%, a prolonged earnings recovery could also raise questions about the bank's ability to rebuild capital organically, potentially bringing the need for additional capital measures into focus and adding another layer of uncertainty to the investment case.

Guidance: Little evidence of a near-term recovery. Management revised its 2026 adjusted earnings guidance to R$9–11bn, from R$18–22bn, while raising expected credit costs to R$80–83bn, from R$65–70bn. Gross NII growth guidance was also reduced to 2.5–4.5%, from 7–11%, alongside lower loan growth expectations. Based on the R$8.6bn in adjusted earnings reported through September, the revised guidance implies just R$0.4–2.4bn in 4Q26 profits, while credit costs are expected to remain elevated at R$21.4–24.4bn. Even at the upper end of the earnings range, profitability would remain well below the 2Q26 level, suggesting limited scope for a meaningful rebound before year-end.

Our View: A more challenging recovery, with downside risks to consensus estimates. The quarter highlights a more challenging path to earnings recovery. Renewed deterioration in Agribusiness, together with softer NII and lower capital ratios, contrasts with the gradual normalization investors had hoped to see and raises questions about the pace of improvement going forward.

The revised guidance points to sustained provisioning pressure and depressed profitability through year-end, while the lower payout and restrictions on distributions underscore the bank's capital constraints. We expect the earnings inflection to be gradual, potentially leaving room for further downward revisions to consensus estimates, particularly for 2027. Against this backdrop, we would not rule out a negative market reaction, as the combination of renewed Agri deterioration, weaker capital metrics and a more restrictive dividend policy raises further questions about the pace of earnings recovery and the bank's ability to rebuild capital organically.

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