

Banco BOCOM BBM S.A. (/gws/en/esp/issr/80732935)**Fitch Affirms BOCOM BBM's LC IDR at 'BB+' and National Rating at 'AAA(bra)'; Outlook Stable**

Fitch Ratings-Rio de Janeiro-15 May 2018: Fitch Ratings has affirmed Banco BOCOM BBM S.A.'s (BOCOM BBM) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BB', LT Local Currency IDR at 'BB+' and LT National Rating at 'AAA(bra)'. The Rating Outlook on the LT IDRs and National Ratings remain Stable. Fitch also affirmed BOCOM BBM's Support Rating (SR) at '3' and Viability Rating (VR) at 'bb-'. See the full list of rating actions at the end of this release.

KEY RATING DRIVERS**IDRS, NATIONAL RATINGS AND SR**

BOCOM BBM's IDRs and National Ratings are driven by expected support from the Bank of Communications Co, Ltd. (BOCOM, LT FC IDR A/Stable and VR bb-), which owns 80% of BOCOM BBM. BOCOM BBM's LT FC IDR is constrained by Brazil's Country Ceiling of 'BB', while its LT LC IDR is two notches above Brazil's long-term rating (LT FC and LC IDRs BB-/Stable), which is the usual maximum uplift Fitch applies to Brazilian financial institutions owned by strong foreign shareholders. The Stable Outlook on BOCOM BBM's IDRs mirror the Outlook on the sovereign ratings.

Under Fitch's assessment, state support to BOCOM would flow through to BOCOM BBM, should the need arise. This is based on the view that the parent regulators would likely be in favor of BOCOM supporting its Brazilian subsidiary and that any required support would be immaterial relative to the ability of BOCOM to provide it.

Fitch considers BOCOM BBM a strategically important subsidiary of BOCOM, given the potential synergies between the two entities, BOCOM's long-term growth plans in Brazil, high level of management and operational integration, the largely fungible capital and funding, BOCOM's large majority stake in BOCOM BBM, the expected rise in the proportion of parental non-equity funding, and the combined parent and local branding.

BOCOM BBM's Support Rating reflects the moderate probability of support by BOCOM and is constrained by Brazil's country risks.

VR

BOCOM BBM's VR reflects its moderate franchise in the highly concentrated Brazilian banking sector and its stable but specialized business model that focuses on corporate lending. It also takes into account the bank's risk appetite, which is increasing under its revised strategy following the change in ownership. Asset quality indicators are currently favorable but could potentially worsen as loan growth stabilizes. Profitability is good, and solid capitalization will allow rapid growth in the next one to two years. BOCOM BBM's funding and liquidity are comfortable and benefit from ordinary support from BOCOM. The bank's Viability Rating also captures constraints imposed by the operating environment.

BOCOM BBM is a small/medium-sized commercial bank with a focus on corporate lending. It has a very small market share of less than 0.5% in both total sector loans and total sector deposits. Loans to medium and large corporates make up two-thirds and a third of total loans, respectively. The bank is also

active in debt structuring and distribution, wealth management, and treasury. Funding is wholesale-based and concentrated by investor.

In line with its strategy adopted since the ownership change. BOCOM BBM has grown faster than peers in the past two years. Total credit risk exposure (loans, guarantees and private securities) grew 26% and 69%, in 2016 and 2017, respectively.

While BOCOM BBM's asset quality indicators are solid, the loan book is yet to season and so current impairment ratios may not fully reflect future recurring impairment rates. That said, Fitch does not expect impairment to rise above the peer average once the loan book matures, given the bank's conservative underwriting standards. BOCOM BBM's non-performing loans over 90 days were only 1.8% of gross loans as of December 2017, unchanged from December 2016 and lower than the sector average for corporate loans of 2.9%.

BOCOM BBM's profitability indicators are adequate. They have remained broadly stable since 2014, with operating profit-to-RWAs averaging 1.6% until December 2017. During 2017, profitability was supported by slightly higher net interest margin and a decline in impairment charges (to 35% of pre-impairment operating profit from 42% in 2016).

BOCOM BBM has a solid capital base that is made up fully of Core Equity Tier 1 capital. As of December 2017, Fitch Core Capital and total regulatory ratios stood at 15.9% and 16.1%, respectively (20.5% and 21.3%, respectively, in 2016). The capitalization ratios will continue to decline as the loan book continues to grow. BOCOM's internal minimum limit for BOCOM BBM's total regulatory capital ratio is 12.5%, which the bank could reach in the next one to two years.

BOCOM BBM has a stable and adequate funding base that benefits significantly from ordinary support provided by BOCOM. Following the change in ownership, BOCOM BBM received low-cost funding from the new majority shareholder and saw its funding costs drop sharply. The bank's funding base is concentrated, but related parties make up a meaningful portion of the total. BOCOM BBM has a comfortable level of liquid assets that covered 34% of local funding, as of December 2017. In the same period, the bank's loans-to-deposits ratio (including deposit-like financial bills) was an adequate 112%.

RATING SENSITIVITIES

IDRS AND SR

Changes in sovereign ratings and Outlook: BOCOM BBM's IDRs and SR remain constrained by the sovereign ratings. A sovereign rating downgrade or a revision of the sovereign Rating Outlook to Negative would result in a similar action on the bank's long-term IDRs, while a sovereign rating upgrade or a revision of its outlook to Positive could lead to a review of the ratings.

Changes in parent support: BOCOM BBM's IDRs and SR could be affected by a change in Fitch's assessment of BOCOM's willingness to support BOCOM BBM or by a multiple-notch downgrade in BOCOM's ratings.

NATIONAL RATINGS

Changes in BOCOM BBM's IDRs or in the bank's credit profile relative to its Brazilian peers could result in changes in its national ratings.

VR

BOCOM BBM's VR could be downgraded in the case of a sovereign downgrade, or if its Fitch Core Capital ratio remains below 12% or if its non-performing loans over 90 days remain above 5% of gross

loans for a sustained period.

BOCOM BBM's VR has a limited upside potential, as it captures constraints by its operating environment and company profile.

Fitch affirmed the following ratings:

- Long-term Foreign Currency IDR 'BB'; Outlook Stable;
- Long-term Local Currency IDR 'BB+'; Outlook Stable;
- Short-term Foreign and Local Currency IDRs 'B';
- Long-term National Rating 'AAA(bra)'; Outlook Stable;
- Short-term National Rating 'F1+(bra)';
- Support Rating '3';
- Viability Rating 'bb-'.

Contact:

Primary Analyst

Esin Celasun

Director

+55 21 4503 2626

Fitch Ratings Brasil Ltda.

Praca XV de Novembro, 20 - 401 B

Rio de Janeiro, RJ, Brazil

Secondary Analyst

Jean Lopes

Director

+55 21 4503 2617

Committee Chairperson

Alejandro Garcia, CFA

Managing Director

+1-212-908-9137

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018) (<https://www.fitchratings.com/site/re/10023430>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/10030776>)

Solicitation Status (<https://www.fitchratings.com/site/pr/10030776#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND

METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.

Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.