

Banco BOCOM BBM S.A.

Key Rating Drivers

Support Driven: Banco BOCOM BBM S.A.'s Issuer Default Ratings (IDRs) and National Ratings are driven by expected support from the Bank of Communications Co., Ltd. (BOCOM; A/Stable), which owns 80% of BOCOM BBM. BOCOM BBM's Foreign Currency IDR is constrained by Brazil's Country Ceiling of 'BB', while its Local Currency IDR is two notches above Brazil's Long-Term IDR of 'BB-/Stable, which is the usual maximum uplift Fitch applies to Brazilian financial institutions owned by strong foreign shareholders.

Relative Size and Parent Regulation: 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's 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.

Strategically Important: 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.

Moderate Franchise: BOCOM BBM's Viability Rating (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 that is increasing under its revised strategy following the change in ownership.

Coronavirus: The deteriorating operating environment amid the coronavirus will pressure the bank's asset quality and profitability, a near-term risk to the ratings. BOCOM BBM's capitalization is solid and funding and liquidity are comfortable and benefit from ordinary support from BOCOM. The bank's VR also captures operating environment constraints.

Faster Growth: 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 37.5% and 20.2%, in 2019 and 2018, respectively. In 2020, given the challenging operating environment, growth should slow.

Good Financial Profile: BOCOM BBM's impaired loans (D-H) ratios were 1.0% of gross loans as of YE 2019 (0.9% as of YE 2018). BOCOM BBM's profitability improved in 2018 and 2019, with operating profit-to-RWAs increasing to 2.4% and 2.3%, respectively. BOCOM BBM has a solid capital base that was made up fully of Core Equity Tier 1 capital at YE 2019. BOCOM BBM has stable and adequate funding that benefits from BOCOM's ordinary support.

Rating Sensitivities

BOCOM BBM's IDRs and Support Rating remain constrained by the sovereign ratings. Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade or positive rating action on the sovereign. This 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.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A sovereign downgrade or a revision of the sovereign's Rating Outlook to Negative;
- A change in Fitch's assessment of BOCOM's willingness to support BOCOM BBM;
- A multiple-notch downgrade of BOCOM's ratings.

Ratings

| Foreign Currency | |
|--|----------|
| Long-Term IDR | BB |
| Short-Term IDR | B |
| Local Currency | |
| Long-Term IDR | BB+ |
| Short-Term IDR | B |
| Viability Rating | bb- |
| Support Rating | 3 |
| National | |
| National Long-Term Rating | AAA(bra) |
| National Short-Term Rating | F1+(bra) |
| Sovereign Risk | |
| Long-Term Foreign-Currency IDR | BB- |
| Long-Term Local-Currency IDR | BB- |
| Country Ceiling | BB |
| Outlooks | |
| Long-Term Foreign-Currency IDR | Stable |
| Long-Term Local-Currency IDR | Stable |
| National Long-Term Rating | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Local-Currency IDR | Stable |

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

Related Research

[Fitch Affirms BOCOM BBM's LC IDR at 'BB+' and National Rating at 'AAA\(bra\)'; Outlook Stable \(April 2020\)](#)

[Fitch Ratings Takes Actions on Brazilian Wholesale Midsize and Small Banks on Coronavirus Impact \(April 2020\)](#)

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Ratings Navigator

| Banks Ratings Navigator | | Peer Ratings | Operating Environment | Company Profile | Management & Strategy | Risk Appetite | Asset Quality | Earnings & Profitability | Capitalisation & Leverage | Funding & Liquidity | Viability Rating | Institutional Support | Issuer Default Rating |
|------------------------------------|----------------------|--------------|-----------------------|-----------------|-----------------------|---------------|---------------|--------------------------|---------------------------|---------------------|------------------|-----------------------|-----------------------|
| Navigator date: | April 2020 | | | | | | | | | | | | |
| Last rating action: | aaa | | | | | | | | | | aaa | AAA | AAA |
| Sector Details: | | | | | | | | | | | | | |
| Bank sector: | Wholesale Commercial | | | | | | | | | | aa+ | AA+ | AA+ |
| Region: | EM Americas | | | | | | | | | | aa | AA | AA |
| Country: | Brazil | | | | | | | | | | aa- | AA- | AA- |
| Country IDR: | a | | | | | | | | | | a+ | A+ | A+ |
| Last action: | a- | | | | | | | | | | a | A | A |
| Country ceiling: | bbb+ | | | | | | | | | | a- | A- | A- |
| Macro prudential indicator: | 1 | | | | | | | | | | bbb+ | BBB+ | BBB+ |
| Bank systemic indicator: | bb | | | | | | | | | | bbb | BBB | BBB |
| | | | | | | | | | | | bbb- | BBB- | BBB- |
| | | | | | | | | | | | bb+ | BB+ | BB+ |
| Bank Rating History | bb | | | | | | | | | | bb | BB | BB <i>Stable</i> |
| Viability Rating (VR) | bb- | | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | bb- | BB- | BB- |
| | b+ | | | | | | | | | | b+ | B+ | B+ |
| | b | | | | | | | | | | b | B | B |
| | b- | | | | | | | | | | b- | B- | B- |
| Issuer Default Rating (IDR) | ccc+ | | | | | | | | | | ccc+ | CCC+ | CCC+ |
| | ccc | | | | | | | | | | ccc | CCC | CCC |
| | ccc- | | | | | | | | | | ccc- | CCC- | CCC- |
| | cc | | | | | | | | | | cc | CC | CC |
| Support Rating Floor (SRF) | c | | | | | | | | | | c | C | C |
| | f | | | | | | | | | | f | NF | D or RD |

Summary Financials and Key Ratios

| (As of Dec. 31) | 2019 | | 2018 | 2017 | 2016 | 2015 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Year End | Year End | Year End | Year End | Year End | Year End |
| | USD Mil. | BRL Mil. | BRL Mil. | BRL Mil. | BRL Mil. | BRL Mil. |
| | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified | Audited - Unqualified |
| Summary Income Statement | | | | | | |
| Net Interest and Dividend Income | 66 | 265.9 | 222.2 | 184.8 | 130.3 | 104.1 |
| Net Fees and Commissions | 22 | 88.1 | 64.7 | 43.3 | 18.7 | 17.9 |
| Other Operating Income | (2.0) | (7.5) | 5.6 | 19.0 | 25.4 | 37.7 |
| Total Operating Income | 86 | 346.5 | 292.5 | 247.1 | 174.4 | 159.7 |
| Operating Costs | 51 | 207.1 | 181.2 | 159.3 | 111.6 | 109.0 |
| Pre-Impairment Operating Profit | 35 | 139.4 | 111.3 | 87.8 | 62.8 | 50.7 |
| Loan and Other Impairment Charges | 3 | 11.8 | 17.4 | 31.0 | 26.6 | 9.3 |
| Operating Profit | 32 | 127.6 | 93.9 | 56.8 | 36.2 | 41.4 |
| Other Non-operating Items (net) | -2 | (6.4) | (3.9) | (2.7) | (8.1) | (4.0) |
| Tax | 8 | 32.7 | 26.3 | 10.8 | (4.7) | (6.5) |
| Net Income | 22 | 88.5 | 63.7 | 43.3 | 32.8 | 43.9 |
| Other Comprehensive Income | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Fitch Comprehensive Income | 22 | 88.5 | 63.7 | 43.3 | 32.8 | 43.9 |
| Summary Balance Sheet | | | | | | |
| Assets | | | | | | |
| Gross loans | 1,034 | 4,166.5 | 3,584.3 | 3,031.7 | 1,771.5 | 1,402.5 |
| - of which impaired | 12 | 49.7 | 37.9 | 77.9 | 68.2 | 41.2 |
| Loan Loss Allowances | 12 | 47.5 | 48.1 | 80.0 | 68.2 | 45.6 |
| Net loans | 1,022 | 4,119.0 | 3,536.2 | 2,951.7 | 1,703.3 | 1,356.9 |
| Interbank | 45 | 182.9 | 101.8 | 160.6 | 131.8 | 305.7 |
| Derivatives | 69 | 277.7 | 242.2 | 11.3 | 15.0 | 14.9 |
| Other Securities and Earning Assets | 954 | 3,845.3 | 2,494.1 | 1,772.7 | 2,065.1 | 1,961.8 |
| Total Earning Assets | 2,090 | 8,424.9 | 6,374.3 | 4,896.3 | 3,915.2 | 3,639.3 |
| Cash and due from Banks | 62 | 251.2 | 66.4 | 13.7 | 16.0 | 24.0 |
| Other Assets | 87 | 352.1 | 235.6 | 223.2 | 167.9 | 164.1 |
| Total Assets | 2,240 | 9,028.2 | 6,676.3 | 5,133.2 | 4,099.1 | 3,827.4 |
| Liabilities | | | | | | |
| Customer Deposits | 239 | 963.5 | 1,379.6 | 1,089.6 | 1,068.3 | 475.4 |
| Interbank and Other Short-Term Funding | 1,214 | 4,893.4 | 2,763.0 | 1,655.6 | 1,628.6 | 1,856.2 |
| Other Long-Term Funding | 497 | 2,002.4 | 1,635.9 | 1,594.9 | 712.4 | 739.7 |
| Trading Liabilities and Derivatives | 26 | 106.7 | 67.1 | 12.8 | 3.8 | 13.3 |
| Total Funding | 1,977 | 7,966.0 | 5,845.6 | 4,352.9 | 3,413.1 | 3,084.6 |
| Other Liabilities | 101 | 409.0 | 229.5 | 205.4 | 118.0 | 163.6 |
| Preference Shares And Hybrid Capital | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Total Equity | 162 | 653.2 | 601.2 | 574.9 | 568.0 | 579.2 |
| Total Liabilities And Equity | 2,240 | 9,028.2 | 6,676.3 | 5,133.2 | 4,099.1 | 3,827.4 |
| Exchange Rate | USD1 = BRL4.0301 | | USD1 = BRL3.8742 | USD1 = BRL3.3074 | USD1 = BRL3.2585 | USD1 = BRL3.9042 |

Source: Fitch Ratings, Fitch Solutions.

Summary Financials and Key Ratios

| (As of Dec. 31) | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------|-------|-------|-------|-------|
| Ratios (Annualized as Appropriate) | | | | | |
| Profitability | | | | | |
| Operating Profit/Risk-Weighted Assets | 2.3 | 2.4 | 1.6 | 1.4 | 1.5 |
| Net Interest Income/Average Earning Assets | 3.5 | 3.8 | 4.0 | 3.4 | 3.3 |
| Non-Interest Expense/Gross Revenue | 58.0 | 62.9 | 69.2 | 74.0 | 88.7 |
| Net Income/Average Equity | 14.2 | 10.8 | 7.6 | 5.7 | 7.6 |
| Asset Quality | | | | | |
| Impaired Loans Ratio | 1.2 | 1.1 | 2.6 | 3.9 | 2.9 |
| Growth in Gross Loans | 16.2 | 18.2 | 71.1 | 26.3 | (3.0) |
| Loan Loss Allowances/Impaired Loans | 95.6 | 126.9 | 102.7 | 100.0 | 110.7 |
| Loan Impairment Charges/Average Gross Loans | 0.3 | 0.5 | 1.2 | 1.6 | 0.7 |
| Capitalization | | | | | |
| Common Equity Tier 1 Ratio | 15.1 | 14.5 | 16.1 | 21.3 | 19.8 |
| Fully Loaded Common Equity Tier 1 Ratio | N.A. | N.A. | N.A. | N.A. | N.A. |
| Fitch Core Capital Ratio | 10.6 | 13.5 | 15.9 | 20.5 | 19.1 |
| Tangible Common Equity/Tangible Assets | 6.5 | 8.2 | 10.8 | 13.2 | 14.4 |
| Basel Leverage Ratio | N.A. | N.A. | N.A. | N.A. | N.A. |
| Net Impaired Loans/Common Equity Tier 1 | 0.3 | (1.8) | (0.4) | 0.0 | (0.8) |
| Net Impaired Loans/Fitch Core Capital | 0.4 | (1.9) | (0.4) | 0.0 | (0.8) |
| Funding and Liquidity | | | | | |
| Loans/Customer Deposits | 432.4 | 259.8 | 278.2 | 165.8 | 295.0 |
| Liquidity Coverage Ratio | N.A. | N.A. | N.A. | N.A. | N.A. |
| Customer Deposits/Funding | 12.3 | 23.9 | 25.1 | 31.3 | 15.5 |
| Net Stable Funding Ratio | N.A. | N.A. | N.A. | N.A. | N.A. |

Source: Fitch Ratings, Fitch Solutions.

Institutional Support Assessment

| Institutional Support | | Value | | |
|---|-----------|-----------|------------|--|
| Parent IDR | | A | | |
| Total Adjustments (notches) | | -6 | | |
| Institutional Support: | | BB | | |
| Support Factors (negative) | Equalised | 1 Notch | 2+ Notches | |
| Parent ability to support and subsidiary ability to use support | | | | |
| Parent/group regulation | ✓ | | | |
| Relative size | ✓ | | | |
| Country risks | | ✓ | | |
| Parent Propensity to Support | | | | |
| Role in group | | ✓ | | |
| Potential for disposal | | ✓ | | |
| Implication of subsidiary default | | ✓ | | |
| Integration | | ✓ | | |
| Size of ownership stake | ✓ | | | |
| Support track record | | ✓ | | |
| Subsidiary performance and prospects | | ✓ | | |
| Branding | | ✓ | | |
| Legal commitments | | ✓ | | |
| Cross-default clauses | | | ✓ | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Environmental, Social and Governance Considerations

FitchRatings Banco BOCOM BBM S.A.

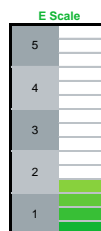
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

| Banco BOCOM BBM S.A. has 1 ESG rating driver and 4 ESG potential rating drivers | | key driver | 0 | issues | Overall ESG Scale |
|---|---------------------|------------|--------|--------|-------------------|
| <ul style="list-style-type: none"> ➔ Banco BOCOM BBM S.A. has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating. ➔ Banco BOCOM BBM S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. ➔ Banco BOCOM BBM S.A. has exposure to operational implementation of strategy but this has very low impact on the rating. ➔ Banco BOCOM BBM S.A. has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating. ➔ Banco BOCOM BBM S.A. has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating. | driver | 1 | issues | 4 | |
| | potential driver | 4 | issues | 3 | |
| | not a rating driver | 4 | issues | 2 | |
| | | 5 | issues | 1 | |

Environmental (E)

| General Issues | E Score | Sector-Specific Issues | Reference |
|--|---------|--|--|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. |
| Energy Management | 1 | n.a. | n.a. |
| Water & Wastewater Management | 1 | n.a. | n.a. |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Company Profile; Management & Strategy; Risk Appetite; Asset Quality |



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

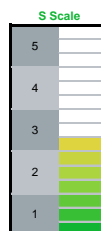
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

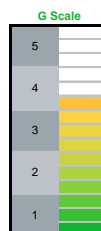
Social (S)

| General Issues | S Score | Sector-Specific Issues | Reference |
|--|---------|--|--|
| Human Rights, Community Relations, Access & Affordability | 2 | Services for underbanked and underserved communities; SME and community development programs; financial literacy programs | Company Profile; Management & Strategy; Risk Appetite |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3 | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) | Operating Environment; Company Profile; Management & Strategy; Risk Appetite |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Company Profile; Management & Strategy |
| Employee Wellbeing | 1 | n.a. | n.a. |
| Exposure to Social Impacts | 2 | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Company Profile; Financial Profile |



Governance (G)

| General Issues | G Score | Sector-Specific Issues | Reference |
|------------------------|---------|---|--|
| Management Strategy | 3 | Operational implementation of strategy | Management & Strategy |
| Governance Structure | 4 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Management & Strategy; Earnings & Profitability; Capitalisation & Leverage |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Management & Strategy |



| CREDIT-RELEVANT ESG SCALE | |
|--|---|
| How relevant are E, S and G issues to the overall credit rating? | |
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

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