

Banco BOCOM BBM S.A.

Key Rating Drivers

Support Driven: Banco BOCOM BBM S.A.'s (BOCOM BBM) Issuer Default Ratings (IDRs) and National Ratings are driven by Fitch Ratings' recognition of expected support from the Bank of Communications Co. Ltd. (BOCOM; Long-Term Foreign Currency [LT FC] IDR A/Stable and Viability Rating [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-/Negative), which is the usual maximum uplift Fitch applies to Brazilian financial institutions owned by strong foreign shareholders. The Negative Outlook on BOCOM BBM's IDRs mirror the Outlook on the sovereign ratings.

Relative Size and Role in Group: Under Fitch's assessment, Chinese state support to BOCOM would flow through to BOCOM BBM, should the need arise. This is based, with higher influence, on the fact 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 its role in fulfilling the strategies and long-term growth plans of the group in Brazil and the potential synergies between the two entities, which is considered a high importance factor for the rating.

Impacts of Coronavirus: Fitch believes Brazilian subsidiaries of foreign banks could be affected by a reduced propensity and ability of support if there are negative impacts on the business and financial profiles of their ultimate parents due to the coronavirus contingency, which Fitch will closely monitor.

Management and Operational Integration: Fitch's analysis also incorporates BOCOM's high level of management and operational integration, 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.

Viability Rating: 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 considers the bank's risk appetite that is increasing under its revised strategy following the change in ownership. BOCOM BBM's capitalization is solid and funding and liquidity is comfortable and benefits from ordinary support from BOCOM. The bank's VR also captures constraints imposed by the operating environment.

Grown Faster: 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 34.5%, 37.5% and 20.2%, in 9M20, 2019 and 2018, respectively. Taking advantage of the opportunities, mainly in the purchase of debentures from large companies, which had attractive spreads at the beginning of the pandemic BOCOM BBM maintains executives with considerable experience in the local market and good corporate governance practices.

Adequate Financial Profile: The deteriorating operating environment as a result of the coronavirus will pressure the bank's asset quality and profitability metrics, representing a medium-term risk to the ratings. BOCOM BBM's impaired loans (D-H) ratios grew in the 1H20 to 3.6% of gross loans (2.6% if consider the total expanded loan portfolio) against 1.0% as of December 2019 and 0.9% as of December 2018. BOCOM BBM's profitability indicators declined in 1H20 with operating profit-to-RWAs in 1.0% against 2.3% in 2019 and 2.4% in 2018.

Solid Capital: BOCOM BBM has a solid capital base that was made up fully of Core Equity Tier 1 capital at in the 1H20 (13.9%) which provides the bank with some cushion to absorb pressures from the current coronavirus crisis. BOCOM BBM has a stable and adequate funding base that benefits significantly from ordinary support provided by BOCOM and present a good position

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	Negative
Long-Term Local-Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

National Scale Rating Criteria (June 2020)
Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms BOCOM BBM's LC IDR at 'BB+' /Negative and National Rating at 'AAA(bra)' /Stable (August 2020)

Analysts

Lopes, Jean
+55 21 4503 2617
jean.lopes@fitchratings.com

Baronto, Ana Carolina
+55 21 4503 2618
anacarolina.baronto@fitchratings.com

of liquidity in the June 2020. In June 2020, the bank's loans-to-deposits ratio (including deposit-like financial bills) was an adequate 134% (133% in December 2019).

Rating Sensitivities

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

IDRs and SR

- A sovereign downgrade;
- A change in Fitch's assessment of BOCOM's willingness to support BOCOM BBM;
- A multiple-notch downgrade of 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

- A sovereign downgrade or negative rating action;
- A sustained decline in BOCOM BBM's operating profit-to-RWAs ratio below 1.0%;
- Any sustained pressures in the CET1 ratio to below 11%.
- An increase in impaired loans (D-H) above 7% of gross loans for a sustained period.

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

IDRS, VR and SR

- BOCOM BBM's IDRs, VR and SR remain constrained by the sovereign ratings.
- An upgrade or positive rating action on the sovereign could benefit the rating, but it is not likely under the current operating environment.

Ratings Navigator

Banco BOCOM BBM S.A.

ESG Relevance:


Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Financial Profile Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB Stable
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- Positive
- Negative
- Evolving
- Stable

Summary Financials

	June 30, 2020		2019	2018	2017	2016
	Six Months — Interim					
(BRL Mil., as of Dec. 31)	USD Mil. Audited — Unqualified	Audited — Unqualified	Year End Audited — Unqualified	Year End Audited — Unqualified	Year End Audited — Unqualified	Year End Audited — Unqualified
Summary Income Statement						
Net Interest and Dividend Income	29	156	266	222	185	130
Net Fees and Commissions	6	31	88	65	43	19
Other Operating Income	0	0	(8)	6	19	25
Total Operating Income	34	187	347	293	247	174
Operating Costs	16	90	207	181	159	112
Pre-Impairment Operating Profit	18	97	139	111	88	63
Loan and Other Impairment Charges	12	64	12	17	31	27
Operating Profit	6	33	128	94	57	36
Other Non-Operating Items (Net)	0	(1)	(6)	(4)	(3)	(8)
Tax	3	18	33	26	11	(5)
Net Income	3	14	89	64	43	33
Other Comprehensive Income	2	13	N.A.	N.A.	N.A.	N.A.
Fitch Comprehensive Income	5	27	89	64	43	33
Summary Balance Sheet						
Assets						
Gross Loans	758	4,149	4,167	3,584	3,032	1,772
- of which Impaired	33	181	50	38	78	68
Loan Loss Allowances	19	103	48	48	80	68
Net Loan	739	4,046	4,119	3,536	2,952	1,703
Interbank	35	190	183	102	161	132
Derivatives	63	344	278	242	11	15
Other Securities and Earning Assets	760	4,159	3,845	2,494	1,773	2,065
Total Earning Assets	1,596	8,739	8,425	6,374	4,896	3,915
Cash and Due from Banks	100	545	251	66	14	16
Other Assets	85	465	352	236	223	168
Total Assets	1,780	9,748	9,028	6,676	5,133	4,099
Liabilities						
Customer Deposits	295	1,615	964	1,380	1,090	1,068
Interbank and Other Short-Term Funding	36	195	4,893	2,763	1,656	1,629
Other Long-Term Funding	1,150	6,296	2,002	1,636	1,595	712
Trading Liabilities and Derivatives	105	576	107	67	13	4
Total Funding	1,586	8,683	7,966	5,846	4,353	3,413
Other Liabilities	70	385	409	230	205	118
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	124	681	653	601	575	568
Total Liabilities and Equity	1,780	9,748	9,028	6,676	5,133	4,099
Exchange Rate		USD1 = BRL5.4754	USD1 = BRL4.0301	USD1 = BRL3.8742	USD1 = BRL3.3074	USD1 = BRL3.2585

N. A. – Not applicable.
Source: Fitch Ratings.

Key Ratios

(x, As of Dec. 31)	June 30, 2020	2019	2018	2017	2016
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	1.1	2.3	2.4	1.6	1.4
Net Interest Income/Average Earning Assets	3.7	3.5	3.8	4.0	3.4
Non-Interest Expense/Gross Revenue	47.6	58.0	62.9	69.2	74.0
Net Income/Average Equity	4.3	14.2	10.8	7.6	5.7
Asset Quality					
Impaired Loans Ratio	4.4	1.2	1.1	2.6	3.9
Growth in Gross Loans	(0.4)	16.2	18.2	71.1	26.3
Loan Loss Allowances/Impaired Loans	56.9	95.6	126.9	102.7	100.0
Loan Impairment Charges/Average Gross Loans	3.1	0.3	0.5	1.2	1.6
Capitalization					
Common Equity Tier 1 Ratio	10.6	15.1	14.5	16.1	21.3
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	10.6	10.6	13.5	15.9	20.5
Tangible Common Equity/Tangible Assets	6.7	6.5	8.2	10.8	13.2
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	12.0	0.3	(1.8)	(0.4)	0.0
Net Impaired Loans/Fitch Core Capital	12.0	0.4	(1.9)	(0.4)	0.0
Funding and Liquidity					
Loans/Customer Deposits	256.9	432.4	259.8	278.2	165.8
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	19.9	12.3	23.9	25.1	31.3
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings.

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

ESG Considerations

BOCOM BBM has an Environmental, Social and Governance (ESG) Relevance Score of '4' for Governance Structure following the same score as the parent, as there is potential for significant state influence as owner or regulatory influence given a lack of independence from the state. This negatively affects the banks' credit profiles and is relevant to the rating in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3' - ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Credit-Relevant ESG Derivation

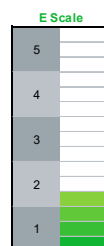
Banco BOCOM BBM S.A. has 1 ESG rating driver and 4 ESG potential rating drivers

- ➔ 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.

Overall ESG Scale				
key driver	0	issues	5	
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.

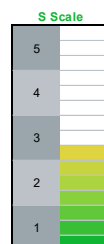
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

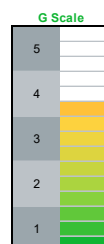
Social (S)

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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