

## CREDIT OPINION

30 June 2021

Update

✓ Rate this Research

### RATINGS

#### Banco BOCOM BBM S.A.

Domicile	Rio de Janeiro, Rio de Janeiro, Brazil
Long Term CRR	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Banco BOCOM BBM S.A.

### Update to credit analysis

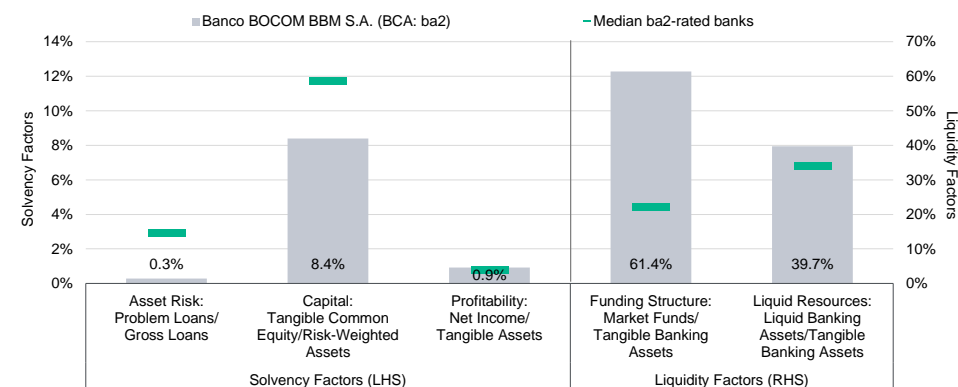
#### Summary

[Banco BOCOM BBM S.A.](#)'s (BOCOM BBM) Baseline Credit Assessment (BCA) of ba2 incorporates the bank's good asset-quality metrics, which results in low loan losses. The ba2 BCA also reflects the bank's profitability metrics that have remained relatively steady in the past three years, reflecting prudent loan underwriting and stringent control of operating expenses. The bank's BCA also reflects funding structure that shows a growing participation of time deposits from corporate clients. In addition, it also comprises resources provided by its parent, [Bank of Communications Co., Ltd.](#) (BoCom, A2 stable, baa3<sup>1</sup>).

BOCOM BBM's long-term local-currency deposit rating of Ba1 reflect the Adjusted BCA of ba1, which incorporates a one-notch uplift from the BCA of ba2. The uplift reflects the high level of affiliate support, given BoCom's majority ownership stake of 80% and the strategic importance of the subsidiary.

Exhibit 1

#### Rating Scorecard - Key Financial Ratios As of December 2020



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.  
Source: Moody's Financial Metrics

This report was republished on 2 July 2021 with a corrected version of Exhibit 2.

## Credit strengths

- » The bank's conservative approach to credit risk management mitigates pressure on asset quality, while the improved risk profile of its loan book offsets higher borrower concentration compared with tangible common equity (TCE).
- » Liquidity is robust because of the slowdown in economic activity.

## Credit challenges

- » Profitability likely to be modest because of weak economic activity and high volume of provision expenses.
- » Asset quality could weaken because of persistently high unemployment and the lingering negative effect of the coronavirus pandemic on economic activity.

## Rating outlook

All of BOCOM BBM's ratings have a stable outlook. Its Ba1 global deposit ratings are one notch higher than Brazil's sovereign bond rating. The outlook on the local- and foreign-currency deposit ratings reflect the stable outlook on the parent's ratings.

## Factors that could lead to an upgrade

- » At the moment, there is no upward pressure on BOCOM BBM's BCA of ba2 because the assessment is constrained by Brazil's sovereign bond rating of Ba2. An upgrade of Brazil's bond rating would likely exert upward pressure on the bank's BCA.
- » A multi-notch upgrade of BoCom's BCA could lead to an upgrade of BOCOM BBM's local-currency deposit rating.

## Factors that could lead to a downgrade

- » BOCOM BBM's ratings could be downgraded in case of a worse-than-expected deterioration in its capital position and asset risk profile.
- » In addition, a multi-notch downgrade of BoCom's BCA could lead to a downgrade of BOCOM BBM's deposit ratings.

## Key Indicators

Exhibit 2

### Banco BOCOM BBM S.A. (Consolidated Financials) [1]

	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (BRL Million)	12,705.0	9,028.2	6,676.3	5,133.4	4,099.1	32.7 <sup>4</sup>
Total Assets (USD Million)	2,446.0	2,244.3	1,722.6	1,547.5	1,259.4	18.1 <sup>4</sup>
Tangible Common Equity (BRL Million)	696.1	633.4	590.0	573.2	569.6	5.1 <sup>4</sup>
Tangible Common Equity (USD Million)	134.0	157.5	152.2	172.8	175.0	(6.5) <sup>4</sup>
Problem Loans / Gross Loans (%)	0.1	0.6	0.2	1.9	1.1	0.8 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	8.4	9.6	11.7	12.4	14.1	11.2 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.9	3.5	1.2	8.9	3.0	3.5 <sup>5</sup>
Net Interest Margin (%)	3.5	3.8	4.2	4.3	3.6	3.9 <sup>5</sup>
PPI / Average RWA (%)	3.8	3.4	3.2	2.3	1.5	2.8 <sup>6</sup>
Net Income / Tangible Assets (%)	0.9	1.0	1.0	0.8	0.8	0.9 <sup>5</sup>
Cost / Income Ratio (%)	38.3	44.4	47.5	56.4	60.3	49.4 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	61.4	60.3	47.4	41.5	41.2	50.4 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	39.7	40.0	38.2	35.1	50.7	40.7 <sup>5</sup>

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Gross Loans / Due to Customers (%)	178.1	186.9	126.9	129.1	99.4	144.1 <sup>5</sup>
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[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

## Profile

Founded in 1858, Banco BOCOM BBM S.A. (BOCOM BBM) started operations as Banco da Bahia, dedicated to retail and middle-market lending activities. In 1998, the bank's commercial arm merged with the investment bank Banco da Bahia Investimentos and formed a multiple banking structure, changing its name to Banco BBM S.A. In May 2015, Bank of Communications Co., Ltd. announced the acquisition of an 80% stake in the bank. The remaining 20% of the bank is owned by the former shareholders, mainly comprising the Mariani family.

Originally, Banco BBM's core business was wholesale commercial lending, proprietary trading activities and asset management. In 2003, the bank began to diversify its earnings base and expanded its operations into commercial lending to upper-middle market companies, mainly in the form of working capital loans in local currency or trade finance-related credit operations. Currently, the bank's corporate lending is largely secured by guarantees or contractual cash flow.

## Detailed credit considerations

### Asset quality has shown resilience to economic downturn

BOCOM BBM's Asset Risk score of baa3 reflects the bank's prudent underwriting standards and track record of low problem loan ratios. Despite the recent resilience of the bank's asset-quality metrics to the weak economic environment associated with the pandemic in the past months, BOCOM BBM could report a growth in problem loans in the second half of 2021 if economic recovery is slower than expected and vaccination rollout is weak, resulting in additional restrictions to business activities.

The score for Asset Risk also incorporates the bank's expanded focus on large corporations, which also leads to an intrinsic increase in borrower concentration. In December 2020, the 20 largest borrowers represented 304% of TCE and 26.6% of total credit exposure. Despite that, the bank mitigates credit risk by focusing on customers with robust risk profiles. In addition, strong credit underwriting policies and entrenched controls have protected BOCOM BBM from credit and market risk disruptions through economic cycles.

As of December 2020, BOCOM BBM's total credit exposure was BRL9.3 billion, compared with BRL6.1 billion a year earlier, also including guarantees and corporate securities. The growth in lending was driven by efforts to increase credit leverage. At the same time, the bank's problem loan ratio decreased to 0.10% from 0.57% a year earlier, also benefiting from a decline in problem loans to BRL6 million from BRL24 million in the year earlier. Despite that, the bank increased loan loss provisions to 0.4% of total gross loans as of December 2020, from 0.3% a year earlier, mainly as a prudential measure in view of the pandemic.

### Capital will likely stabilize despite lower profit and loan growth

BOCOM BBM's Capital score of ba3 takes into consideration our expectation that capitalization will likely remain fairly stable in the next 12-18 months because of the bank's diligent use of capital despite negative pressure on profitability stemming from the still-recovering economic environment.

As of December 2020, Our preferred ratio of TCE to risk-weighted assets (RWA) for BOCOM BBM was 8.4%, lower than 9.6% in December 2019. The ratio declined mainly because of an increase in liquid assets, particularly in the form of government securities, resulting in RWA growth. We have a more conservative view on capitalization and adjust our TCE/RWA by assigning a 100% weight for government securities and limiting to 10% the amount of deferred tax assets that can contribute to TCE.

BOCOM BBM's regulatory Common Equity Tier 1 (CET1) capital ratio increased slightly to 11.27% in December 2020 from 11.4% a year earlier, and it was 552 bps above the minimum regulatory CET1 of 5.75%. This minimum was in effect until March 2021, while it will increase gradually to 7.0% up to March 2022. In January 2019, the bank issued a BRL200 million perpetual subordinated local debt (letra financeira subordinada) that supported the growth of its regulatory Tier 1 capital.

### Profitability will likely drop because of still recovering economic activity

BOCOM BBM's Profitability score of ba1 incorporates negative pressure on earnings as a result of the lingering negative effect of the pandemic on economic activity. In addition, the slow rollout of vaccines raises questions as to whether or not social distancing

measures and restrictions on business activity may be required again in the future. A continued rebound in business activity and cost controls will benefit profitability, but low, although rising, interest rates and competition will continue to pressure margins. A reduction in sales could impair companies' ability to pay back loans and lead to an increase in provision expenses from banks.

In the 12 months that ended December 2020, BOCOM BBM reported net income of BRL116.6 million, 32% higher than the year earlier. The main drivers for the increase in bottom-line results were the higher gains from derivative assets and foreign-exchange operations, explained by the depreciation of the Brazilian real against the US dollar, as well as higher fee income.

Because of the pandemic, the bank's loan loss provisions increased to BRL27 million, up 100% from the year-earlier period. Similarly, other provisions increased to more than twice their size in the year earlier to almost BRL1 million, with total operating expenses increasing 9.2% to BRL173 million.

In December 2020, noninterest income increased 20.2% because of higher fees and commissions compared with the year-earlier period, while net interest income was BRL344 million, increasing 29.2% compared with 2019. However, this increase in earnings was partly offset by a sizable growth in interest expenses, which went up almost 71%, mostly as a result of the devaluation of the Brazilian real and its effect on the cost of funding sourced abroad. Despite the improvement in the bank's net income, the growth of assets resulted in lower profitability. As of December 2020, the ratio of net income to tangible assets decreased to 0.9% from 1.0% in December 2019.

### **Defensive liquidity management mitigates high participation of market funds**

The Combined Liquidity score of ba3 reflects the large share of market funding in the bank's funding structure. However, it also incorporates the ample amount of liquid assets held by the bank and a favorable tenor gap in its balance sheet.

We expect the participation of market funds (that is, borrowings abroad and domestic bank notes) in BOCOM BBM's funding structure to remain high, although the bank will maintain its efforts to access a broader variety of investors. A modest share of these market funds comprised funding facilities from its parent bank, which represented about 25% of total funding in December 2020.

BOCOM BBM manages tenor gaps and costs by issuing local-currency debt instruments (letras financeiras), with a minimum two-year tenor, and other deposit-like instruments, such as agribusiness-linked notes (LCAs) and residential mortgage-backed securities (LCIs).

Total deposits, excluding interbank deposits, and deposit-like instruments accounted for BRL3.79 billion as of December 2020, representing about 35% of the funding mix. The participation of foreign-currency lines in BOCOM BBM's total funding was roughly 30% as of December 2020.

BOCOM BBM's large position in government securities works as a buffer in times of stress, together with a conservative cash policy, which is comfortable and meets the bank's 180-day horizon obligations. BOCOM BBM also adopts strong rules that prioritize the duration of deposits, allowing the bank to work with no liquidity gap, unlike most of its peers.

### **BOCOM BBM's rating is supported by the Moderate- Macro Profile of Brazil**

The Moderate- Macro Profile for Brazil incorporates the large-scale and highly diversified economy in a low-interest-rate environment, despite modest growth prospects. The Macro Profile also reflects Brazil's favorable credit conditions until the unexpected pandemic, and the sustained accommodative monetary policy with low inflation and record low interest rates. We expect a moderate rebound in bank lending in 2021 and 2022, supported by economic recovery, which, however, will depend on the path of recovery. Private consumption and retail sales have been deeply affected by the pandemic since March 2020 and are likely to gradually recover in the medium term. However, labor and wage conditions will likely be the last to improve, which could affect demand for credit and banks' risk appetite in the next six to eight quarters.

Private banks are regaining market share as state-run banks focus on their respective policy mandates. Record low interest rates and low inflation will lead to a gradual increase in job creation, improving borrowers' repayment capacity and leading to a stabilization in asset quality.

### **ESG considerations**

BOCOM BBM's exposure to environmental risks is low, consistent with our general assessment of the global banking sector. See our [environmental risks heat map](#) for further information.

Overall, we consider banks to face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partially offset by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology cost, aging population concerns in several countries impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. See our [social risks heat map](#) for further information.

Governance is highly relevant for BOCOM BBM, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit a bank's credit profile. Governance risks are largely internal rather than externally driven, and for BOCOM BBM we do not have any particular governance concerns. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## Support and structural considerations

### Affiliate support

We believe there is a high probability of affiliate support for BOCOM BBM from its parent bank, BoCom, given its majority ownership stake and the strategic importance of the Brazilian subsidiary. BoCom is likely to appoint executives to certain key positions at the bank and will closely engage in the subsidiary's strategic decision making process, including BOCOM BBM's support to the operations of Chinese companies in Brazil. Therefore, BOCOM BBM's Adjusted BCA of ba1 incorporates a one-notch uplift from its ba2 BCA.

### Government support

BOCOM BBM's local-currency deposit rating of Ba1 reflects its ba1 Adjusted BCA and does not benefit from government support uplift, given the bank's modest market share of domestic deposits.

### Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

#### **BOCOM BBM's CR Assessment is positioned at Baa3(cr)/Prime-3(cr)**

The CR Assessment is one-notch above the bank's Adjusted BCA of ba1, and, therefore, above the deposit rating of the bank, reflecting our view that its probability of default is lower for the operating obligations than that for deposits. BOCOM BBM's CR Assessment does not benefit from government support because government support is not incorporated into the bank's deposit ratings.

### Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

#### **BOCOM BBM's CRRs are positioned at Baa3/Prime-3**

BOCOM BBM's global local- and foreign-currency CRRs are positioned at Baa3 and Prime-3, one notch above the bank's Adjusted BCA, reflecting the lower probability of default of CRR liabilities and our expectation of a normal level of loss given default. The CRRs of Baa3 are one notch below Brazil's foreign-currency ceiling for deposits and debt obligations.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 3

Banco BOCOM BBM S.A.

### Macro Factors

**Weighted Macro Profile**                      **Moderate**    **100%**

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Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.3%	a3	↔	baa3	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	8.4%	b2	↔	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.9%	ba2	↔	ba1	Expected trend	
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	61.4%	caa2	↔	b3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	39.7%	baa3	↔	baa3	Quality of liquid assets	
Combined Liquidity Score		b2		ba3		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba2		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				1		
Adjusted BCA				ba1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	0	Baa3	Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	0	0	ba1	0	Ba1	Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 4

Category	Moody's Rating
<b>BANCO BOCOM BBM S.A.</b>	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
<b>PARENT: BANK OF COMMUNICATIONS CO., LTD.</b>	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Investors Service

## Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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