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## Fitch Affirms BOCOM BBM's Local Currency IDR at 'BB+' and National Rating at 'AAA(bra)'

Fitch Ratings - São Paulo - 24 Aug 2021: Fitch Ratings has affirmed Banco BOCOM BBM S.A.'s (BOCOM BBM) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BB', Long-Term Local Currency IDR at 'BB+', and Long-Term National Rating at 'AAA(bra)'.

The Rating Outlook remains Negative on the Long-Term IDRs, and Stable for the National Ratings.

### Key Rating Drivers

#### IDRs, NATIONAL RATINGS AND SUPPORT RATING

BOCOM BBM's IDRs, National Ratings and Support Ratings reflect Fitch's view of a high probability of support if needed from their Chinese parent bank, Bank of Communications Co, Ltd. (BOCOM; Long-Term Foreign Currency IDR A/Stable and Viability Rating bb-).

The Long-Term IDR is constrained by Brazil's 'BB' Country Ceiling, while its Long-Term Local Currency IDR is currently capped at two notches above Brazil's Local Currency sovereign rating (BB-/Negative). This reflects Fitch's view that BOCOM's propensity and ability to provide support to its subsidiary's senior creditors is linked to Brazilian sovereign risk, and might be reduced in case of extreme sovereign stress, despite the group's strategic commitment to the country. The Negative Outlook on the IDRs mirror the Outlook on Brazil's Long-Term IDR.

BOCOM owns 80% of BOCOM BBM and the parent's IDRs are driven by the Chinese state's ownership in the bank and its systemic importance. Under Fitch's assessment, Chinese state support to BOCOM would flow through to BOCOM BBM, should the need arise. BOCOM has a strong ability to provide support if needed, as BOCOM BBM's modest size relative to the overall group is unlikely to represent a constraint.

In addition, 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.

#### VR

BOCOM BBM's Viability Rating (VR) is currently constrained by the Brazilian sovereign rating of 'BB-', given the intrinsic exposure of the bank's activities within Brazil, including significant exposure to government securities. The bank's VR also captures constraints imposed by the operating environment.

The VR is supported by the bank's moderate corporate lending franchise in the domestic market and its stable but niche business model. It also reflects a moderate risk appetite, resulting in stronger asset quality than many of its peers. BOCOM BBM's capitalization is solid, while funding and liquidity is comfortable and benefits from ordinary support from BOCOM.

BOCOM BBM asset quality metrics were strong pre-pandemic, benefiting from its moderate credit appetite, skewed towards upper-mid-sized clients and large corporates. Asset quality proved resilient to date, with an impaired loan ratio of 0.4% at end-March 2021, down from 1.2% a year earlier, better than the Brazilian banking sector's average. The bank's solid reserve coverage of impaired loans (199% at YE 2020) also provides some protection in the current environment. However, asset quality remains sensitive to high concentration exposures in respect to single borrowers, which may increase the vulnerability of its loan book to single performance fluctuations.

Current capital ratios provide the bank with moderate buffers over regulatory requirements. The common equity Tier 1 (CET1) ratio of 11.3% at YE 2020 decreased in recent years due to business expansion. However, further loss-absorption capacity in the form of hybrid instruments fully subscribed by its parent supports a stronger Tier 1 capital ratio of 14.4% and reinforces Fitch's assessment that BOCOM is committed to support growth when required.

The bank's funding and liquidity are adequate and stable, as reflected in an adjusted loan-to-deposits ratio of about 102% at YE 2020. The bank's liquidity buffers are adequate given limited forthcoming maturities. Fitch's assessment of BOCOM BBM's funding and liquidity profile incorporates the benefits it derives from being part of BOCOM, and the extensive ordinary support in terms of liquidity provided by its Chinese parent.

## **RATING SENSITIVITIES**

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

--BOCOM's ratings are sensitive to a downgrade of Brazil's sovereign rating.

--The IDRs, National Ratings and Support Rating could also be downgraded if BOCOM's IDRs, from which they are notched, suffer a multiple-notch downgrade. While it is not Fitch's base case, BOCOM BBM's ratings would also be sensitive to the Brazilian operation becoming less strategic for BOCOM or to BOCOM BBM becoming significantly less integrated within the group, leading Fitch to no longer viewing it as a strategically important subsidiary to BOCOM's operations.

--The VR could be downgraded if the regulatory CET1 ratio falls below 11% without a credible plan to restore it in a timely manner, or if Fitch observes a prolonged deterioration in profitability than currently envisage, or a larger-than-expected increase in impaired loans.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--The Rating Outlook on the Long-Term IDRs could be revised to Stable if there is a similar action on the Brazilian sovereign rating. BOCOM'S IDRs could be upgraded if Fitch believes that BOCOM BBM has become more strategically important to BOCOM, provided that the rating on the Brazilian sovereign

was also upgraded.

--An upgrade on the VR is unlikely and would be contingent on a material improvement of the operating environment, which is currently scored at 'b+' / Negative, and/or a sovereign upgrade. This would have to be accompanied by a sustained improvement of core banking profitability, combined with a strengthening of the bank's franchise and business model.

### **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **Public Ratings with Credit Linkage to other ratings**

BOCOM BBM's IDR's and National Ratings are driven by support from the Bank of Communications Co, Ltd. (BOCOM; LT FC IDR A/Stable and VR bb-), which owns 80% of BOCOM BBM.

### **ESG Considerations**

BOCOM'S ESG Relevance score for Governance Structure risk has been revised to '3' from '4' to align this score with its parent. Fitch believes the Chinese regulatory developments on financial reform and governance standards in recent years have reduced the potential for undue state or regulatory influence to materially affect the bank's credit profile, even with the lack of independence from the state as its majority shareholder.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Banco BOCOM BBM S.A.	LT IDR	BB 	Affirmed	BB 
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ 	Affirmed	BB+ 
	LC ST IDR	B	Affirmed	B
	Natl LT	AAA(bra) 	Affirmed	AAA(bra) 
	Natl ST	F1+(bra)	Affirmed	F1+(bra)
	Viability	bb-	Affirmed	bb-

ENTITY/DEBT	RATING	RECOVERY	PRIOR
	Support	3	Affirmed
			3

## RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

## Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

Banco BOCOM BBM S.A. EU Endorsed, UK Endorsed

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