

17 AUG 2022

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

Fitch Ratings - São Paulo - 17 Aug 2022: Fitch Ratings has affirmed Banco BOCOM BBM S.A.'s (BOCOM BBM) Long-Term (LT) Foreign Currency (FC) Issuer Default Rating (IDR) at 'BB', LT Local Currency (LC) IDR at 'BB+' and LT National Rating at 'AAA(bra)'. The Rating Outlook is Stable.

In addition, Fitch has affirmed BOCOM BBM's Viability Rating (VR) at 'bb-'.

Key Rating Drivers

IDRs, NATIONAL RATINGS AND SHAREHOLDER SUPPORT RATING

High Probability of Support: BOCOM BBM's IDRs, National Ratings and SSR reflect a high probability of support from its Chinese ultimate parent bank, Bank of Communications Co, Ltd. (BOCOM; Long-Term Foreign Currency IDR A/Stable and Viability Rating bb-).

BOCOM BBM's LT FC IDR is rated one notch below that of BOCOM's and constrained by Brazil's 'BB' Country Ceiling, while its LT LC IDR is currently capped at two notches above Brazil's LC sovereign rating (BB-/Stable). This reflects Fitch's view that BOCOM's 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 support assessment also incorporates Fitch's view that BOCOM BBM's activities in Brazil are strategically important for the parent. This is demonstrated by the group's efforts to deepen commercial activity since over the past years, ordinary support in terms of funding and capital and BOCOM BBM's efforts to increase synergies and operational integration within its parent.

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.

VR

Intrinsic Credit Fundamentals: The VR is supported by the bank's growing, albeit modest in size, corporate lending franchise in the domestic market and the bank's proved record of business stability over the past four years. It also reflects a conservative risk appetite towards domestic corporates, resulting in stronger asset quality than many of its peers. BOCOM BBM's capitalization is adequate for

its risk profile, while funding and liquidity is comfortable and benefits from ordinary support from BOCOM.

Strengthened Franchise: BOCOM BBM is a medium-sized commercial bank focused primarily on corporate lending. The bank's market share by total loans is small on a national basis, but Fitch's assessment of BOCOM BBM business profile highlights the bank's improved banking franchise in recent years that has translated into incremental revenue generation over the past four years despite a more challenging and highly competitive operating environment.

The bank's management team has successfully executed its business-expansion plans on the bank's core corporate lending franchise, while strengthening fee-based business units so as to support revenue diversification. Intra-group benefits from being part of the Chinese BOCOM group supported this plan.

Resilient Asset Quality: BOCOM BBM has maintained better asset quality throughout the recent years than domestic peers due to its conservative risk profile, which should put them in good stead to absorb some deterioration from higher interest rates and Brazil's still low economic growth. At end-2021, its impaired loan ratio (which includes impaired loans from D-H under local resolution) was 0.4%, and was supported by a strong impaired loans coverage ratio of 163%. Fitch believes BOCOM BBM's strong metrics should help the bank maintain asset-quality metrics that are consistent with a 'bb-' score.

Improving Commercial Scale: BOCOM BBM's profitability metrics are somewhat below that of the average of "bb category" banks, partially explained by the bank's conservative asset mix toward large corporates. However, core earnings have been fairly improving in recent years helped by growing business volumes, improving mix and cost optimization measures. BOCOM BBMs operating profit-to-RWAs ratio was 3.3% in FY21 from 2.3% in FY18, supported by sound revenue performance. Accordingly, the bank's operating income of BRL561 million in FY21 grew 2.0x from FY18 levels of BRL292 million.

Fitch anticipates most of the earnings rebound in 2021 will be challenged in the next 18 months due to weaker business prospects, but profitability will likely remain resilient due to growing corporate lending volumes and the continued expansion toward new businesses, including in SME lending and in the bank's client fund management divisions.

Adequate Capitalization: Capitalization levels are adequate considering BOCOM BBM's credit risk profile, well managed market risks and ordinary support from the parent. BOCOM BBM's below peer average CET1 ratio of 9.8% at the end of March 2022 reflects its parent BOCOM largely managing the subsidiary's capitalization on a need-cost optimization basis. Fitch expects ordinary support to remain available for business growth, should it be needed.

Further loss-absorption capacity in the form of hybrid instruments is added by tier 1 perpetual notes placed within its group of around BRL 200 million. Also, in February 2022, BOCOM BBM's demonstrated good access to wholesale debt markets through an issuance of BRL270 million of tier 2 subordinated debt. The latter explains BOCOM BBM's improved total regulatory capital ratio of 15.3%

at the end of March 2022 from 12.6% the end of 2021.

Stable Funding: Fitch's assessment of BOCOM BBM's funding and liquidity profile incorporate the benefits it derives from being part of BOCOM. Intragroup funding accounted for 34% of BOCOM BBM's funding base at the end of March 2022. BOCOM BBM also funds its loan book with a mix of customer deposits and deposit like instruments. The bank's liquidity buffers are adequate given limited forthcoming maturities. At the end of March 2022, high-quality liquid assets reached BRL2.6 billion, representing an adequate 19% of total assets.

Rating Sensitivities

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

BOCOM BBM's IDRs, National Ratings and SSR could be downgraded if BOCOM's IDRs, from which they are notched, suffer a multiple-notch downgraded. However, BOCOM BBM's Long-Term IDR would not be downgraded to a level below that of its VR.

The VR has enough headroom to absorb moderate deterioration in asset quality. They could be downgraded if the recovery of the Brazilian economy suffers a severe setback causing a material weakening of the operating environment. In this scenario, pressure could stem from rapidly rising private-sector indebtedness and permanent erosion of business prospects.

The VR could also be downgraded if contrary to expectations, BOCOM BBM's impaired loan ratio deteriorates durably above 5% that results in deterioration of its earnings.

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

BOCOM'S IDRs could be upgraded if the rating on the Brazilian sovereign is also upgraded, provided that BOCOM BBM remains strategically important to BOCOM.

An upgrade on the VR is unlikely and would be contingent on a sovereign upgrade.

VR ADJUSTMENTS

The Business Profile 'bb-' has been assigned above the implied 'b' Business Profile Score due to the following adjustment reason: Group benefits and risks (positive).

The Earnings & Profitability 'b+' has been assigned below the implied 'bb' Earnings & Profitability Score due to the following adjustment reason: Revenue Diversification (negative).

The Funding & Liquidity of 'bb-' has been assigned above the implied 'b' Funding & Liquidity Score due to the following adjustment reason: Non-deposit funding (positive).

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 IDRs 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

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.

Fitch Ratings Analysts

Raphael Nascimento

Director

Primary Rating Analyst

+55 11 3957 3680

Fitch Ratings Brasil Ltda. Alameda Santos, nº 700 – 7º andar Edifício Trianon Corporate - Cerqueira César São Paulo, SP SP Cep 01.418-100

Claudio Gallina

Senior Director

Secondary Rating Analyst

+55 11 4504 2216

Theresa Paiz-Fredel

Senior Director

Committee Chairperson

+1 212 908 0534

Media Contacts







Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

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-
	Shareholder Support	bb	Affirmed	bb

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria[Bank Rating Criteria \(pub.12 Nov 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (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>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

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.

Copyright © 2022 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.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.