

CREDIT OPINION

1 December 2023

Update

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RATINGS

Banco BOCOM BBM S.A.

Domicile	Rio de Janeiro, Rio de Janeiro, Brazil
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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.

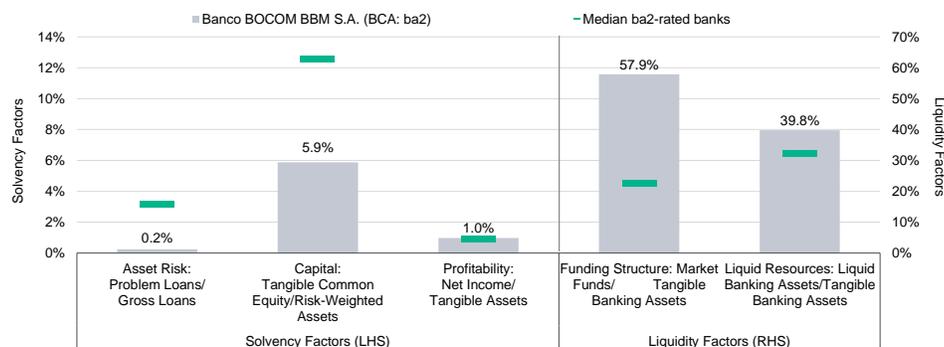
Update to credit analysis

Summary

[Banco BOCOM BBM S.A.](#)'s (BOCOM BBM) Baseline Credit Assessment (BCA) of ba2 reflects bank's long track record of disciplined risk management, supporting low levels of problem loans and resilient earnings throughout the economic cycles, which mitigates the high borrower concentration risk that is intrinsic to its business model. The bank has a well-established franchise focused on lending to large and upper-middle market companies, where it has been expanding above industry level since the acquisition of its control by the Chinese bank, [Bank of Communications Co., Ltd](#) (BoCom, A2 stable, baa3¹), in 2016. The ba2 BCA also acknowledges BOCOM BBM's consistent profitability fundamentals based on low cost of credit and growing contribution of fee-based income, as well as its conservative liquidity management, that helps to mitigate risks arising from a largely wholesale funding structure.

BOCOM BBM's long-term local-currency deposit rating of Ba1 derive from its Adjusted BCA of ba1, which incorporates a one-notch uplift from the BCA of ba2, reflecting our assessment of high probability of affiliate support from China-based parent BoCom.

Exhibit 1
Rating Scorecard - Key Financial Ratios
As of June 2023



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

Credit strengths

- » Conservative risk management supports a track record of superior asset quality metrics and low credit costs.
- » Consistent profitability, with improved earnings diversification on the back of recent business growth.
- » Adequate liquidity position combined with prudent management of tenor mismatches.

Credit challenges

- » Funding base largely sourced through wholesale investors and third-party investment platforms.
- » Asset risks associated with rapid growth of loan portfolio as well as high borrower and sector concentration relative to tangible common equity.

Rating outlook

All of BOCOM BBM's ratings have a stable outlook that incorporates our expectation that the bank's financial profile will remain roughly stable and the willingness and capacity of the parent BoCom in China to support the bank will remain broadly unchanged over the next 12-18 months.

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 the Government of Brazil's sovereign bond rating of Ba2, with stable outlook. However, a multi-notch upgrade at the parent bank's BCA could lead to an upgrade of BOCOM BBM's deposit ratings.

Factors that could lead to a downgrade

- » BOCOM BBM's BCA, and ratings, could experience downward pressure if its asset quality deteriorates rapidly exerting pressures on earnings generation, and on its capital position. In addition, a multi-notch BCA downgrade of its parent bank could lead to a downgrade of BOCOM BBM's deposit ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

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

	06-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (BRL Million)	24,072.7	22,567.5	15,649.2	13,376.3	15.8 ⁴
Total Assets (USD Million)	4,990.2	4,274.4	2,806.4	2,575.2	18.0 ⁴
Tangible Common Equity (BRL Million)	1,060.9	894.5	792.7	697.9	11.0 ⁴
Tangible Common Equity (USD Million)	219.9	169.4	142.1	134.4	13.1 ⁴
Problem Loans / Gross Loans (%)	0.3	0.2	0.2	0.1	0.2 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	5.9	5.5	7.3	8.4	6.8 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.6	2.7	1.3	0.6	1.8 ⁶
Net Interest Margin (%)	2.9	2.4	2.9	2.5	2.7 ⁵
PPI / Average RWA (%)	3.1	2.6	3.4	3.1	3.1 ⁶
Net Income / Tangible Assets (%)	1.1	1.0	0.9	0.9	1.0 ⁵
Cost / Income Ratio (%)	33.3	37.2	37.9	39.1	36.9 ⁵
Market Funds / Tangible Banking Assets (%)	53.8	57.9	61.9	57.1	57.7 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	36.2	39.8	45.4	44.6	41.5 ⁵
Gross Loans / Due to Customers (%)	141.8	145.7	157.3	139.3	146.0 ⁵

[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, 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, with focus on wholesale commercial lending, proprietary trading activities and asset management, 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. In October 2021, the Chinese-based parent announced it will acquire the remaining 20% of the shares that are owned by the Mariani family. The completion of the share transfer has already been approved by Brazilian regulators and is still pending approval by one of the three Chinese authorities.

Detailed credit considerations

Bank continues to outpace banking system's average growth, asset quality remains adequate

BOCOM BBM's Asset Risk score of baa3 reflects the bank's conservative underwriting standards and track record of low problem loan ratios. The score also incorporates the risks associated with the accelerated credit portfolio growth since the control acquisition by Bank of Communications, Ltd., which propelled the access to a new universe of borrowers including large corporates and Chinese companies. This expansion towards larger size clients translated into increased single-borrower concentration, with top 20 clients accounting for 27% of total credit exposure and 346% of tangible common equity (TCE) as of June 2023, from 321% a year earlier. Bank's high exposure to the agricultural sector, at 48% of the loan portfolio, may also add volatility to asset quality.

BOCOM BBM mitigates concentration risks by focusing on clients with robust credit fundamentals at the same time it registers a rural loan portfolio relatively diversified in terms of subproducts and geography. Bank's problem loans outpaced credit portfolio growth in the last twelve months ended in June 2023 and attained BRL30.3 million, from BRL 13.5 million in June 2022, but remained at moderate levels, at 0.2% in comparison to the banking system average of 3.6%. Loan loss reserve remains adequate, representing 284% of problem loans as of June 2023.

BOCOM BBM 's total credit exposure, including issued guarantees and private securities, increased 24% from a year earlier, to BRL15.0 billion, reflecting management's efforts to expand balance sheet, as well as strong economic activity in target segments. Companies with annual revenues between BRL200 million and BRL3 billion and above 3 billion accounted for 60% and 19% of total exposure, respectively. Credit to midsize enterprises (SME) represented 6% of total exposure and is originated with stricter collateral

requirements, with loans on a clean basis representing a modest 10% of total, whereas collateralization of the entire loan book stayed at 41% as of June 2023.

Going forward, the expected deceleration in economic activity in 2024 and still elevated policy rates are likely to put a strain on asset quality, although we expect BOCOM BBM to keep registering adequate metrics on the back of its prudent risk management and lower concentration on segments that are more vulnerable to economic downturns.

Core capitalization has declined on the back of strong balance sheet growth

BOCOM BBM's Capital score of b2 takes into consideration our expectation that Bank will sustain its capacity to generate strong bottom-line results at the same time that BoCom will resume core capital injections to support the continuous credit growth of the Brazilian subsidiary once final approval for the acquisition of the remaining 20% share of capital is granted by authorities.

As of June 2023, our adjusted ratio of TCE to risk-weighted assets (RWA), which assigns a 100% weight for government securities and limits the amount of deferred tax assets that can contribute to TCE, declined to 5.9%, from 6.4% a year earlier, as BOCOM BBM has continued to support its robust loan growth mostly through the issuance of capital-eligible debt as opposed to common equity. Noteworthy, bank has reduced dividend pay-out ratio to roughly 25% over the last three years at the same time that profitability improved, but earnings retention on its own has not been sufficient to underpin the robust balance sheet expansion in the period.

Total regulatory capital stayed at 14.3% in June 2023, from 13.5% a year earlier, reinforced by a BRL200 million issuance of subordinated debt with a 10-year tenor in November 2022. Tier I regulatory capital stayed at 10% in June 2023.

Robust business origination and low credit costs continue to buttress profitability

BOCOM BBM's Profitability score of ba1 reflects bank's track record of consistently generating stable profits through different economic and business cycles.

BOCOM BBM reported bottom line of BRL130 million in the first half of 2023, which, although 49% higher in comparison to the result posted in prior year, resulted in a roughly flat net income to tangible banking assets ratio, at 1.1%. The growth in net income is primarily driven by strong business origination, coupled with a 60% reduction in loan loss provisions. Earnings from both loan and investment portfolios were benefitted by the still-high policy interest rates and increased volumes, but were offset by more competitive margins on bank's core lending segments. As a result, net interest margin declined to 2.9%, from 3.1% in the first half of 2023.

Operating expenses continued to outpace inflation to support BOCOM BBM's growth strategy, although cost to income ratio has slightly declined to 33%, from 34% in prior year. Efficiency has consistently improved over the last years, demonstrating gains of scale.

As BOCOM BBM expands its customer base, the bank is simultaneously diversifying its portfolio with a focus on complementary products such as asset and wealth under management businesses as well as local debt capital markets structuring and derivatives sales. However, non-interest income declined by 22% in June 2023 year-over-year, amid unfavorable market conditions, compared with the 30% average annual growth witnessed over the past five years.

Prudent asset-liability management mitigates the reliance on market-sensitive funding

The Combined Liquidity score of ba3 reflects the declining, but still large share of market funding in the bank's funding structure, as well as its prudent liquidity and asset-liability management.

Over the last two years, BOCOM BBM has leveraged from its sizeable agribusiness credit portfolio to expand issuances of agribusiness-linked notes (LCAs), a lower cost deposit-like instrument that the bank entirely sources through third-party investment platforms. As a result, market funding ratio declined to 54% from 59% a year earlier, at the same time that individual investors attained 84% of total deposits, reflecting a more granular funding base.

Funding provided by BoCom Group represented 42% of market funding as of June 2023, from 47% a year earlier, followed by interbank deposits and repurchase agreements, jointly accounting for 28% of total, and 22% by local-currency debt instruments (letras financeiras), which have a minimum two-year tenor by regulation.

To mitigate funding risk, BOCOM BBM holds a large position of liquid assets, sufficient to comfortably cover bank's 180-day horizon obligations including the funding provided by Bocom Group, which is less sensitive to market conditions. BOCOM BBM also adopts

stringent rules against maturity mismatches as, excluding the funding provided by related parties, which is mostly of short-term and continuously renewed, bank finances all of its credit operations with longer-term obligations.

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

Brazil's (Ba2 stable) Macro Profile of "Moderate" is supported by the country's large and highly diversified economy with limited exposure to external financing risks. It also incorporates our improvements in the business environment for banks from recent reforms, including the independence of the central bank; the state-owned company law; labor reform; and a collateral framework that reduced uncertainties about judicial disputes and the potential for political intervention in the financial system. We forecast a real GDP growth to moderate in 2024 and 2025 to 2.0% after growing around 3.0% in the previous couple of years.

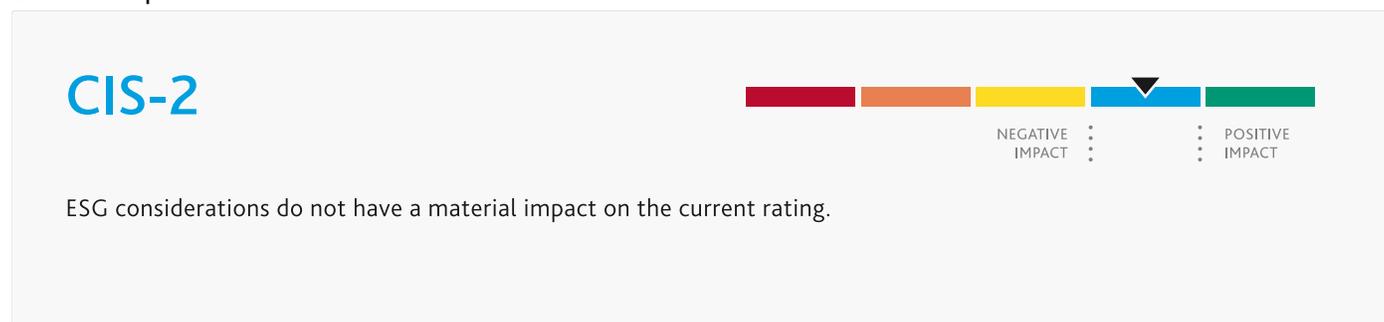
Our assessment acknowledges the current momentum as Brazil's banking system moves out of the credit cycle's downturn, with declining but still-high delinquency ratios and household indebtedness amid tighter liquidity on global capital markets, which will continue to pressure credit conditions ahead.

ESG considerations

Banco BOCOM BBM S.A.'s ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score



Source: Moody's Investors Service

BOCOM BBM's **CIS-2** indicates that ESG considerations are not material to the rating. The credit impact of environmental and social factors on the rating to date is moderate. The bank faces limited governance risks, stemming from conservative risk management and consistent corporate governance practices.

Exhibit 4

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

BOCOM BBM's **E-3** score reflects exposure specifically from carbon transition and physical climate risks. As a wholesale bank with meaningful lending to corporate clients in Brazil, BOCOM BBM has credit exposure to carbon-intensive and rural sectors. Like its peers, BOCOM BBM is facing mounting regulatory and stakeholder pressure to meet broader carbon transition goals. In response, the bank is engaging in developing its climate risk and portfolio management capabilities.

Social

S-3. BOCOM BBM has moderate industrywide social risks related to customer relations reflecting the predominance of wholesale operations with companies in its loan portfolio. BOCOM BBM's focus on offering financial products to companies reduces risks related to mis-selling or misrepresentation.

Governance

G-2. BOCOM BBM faces limited governance risks. Its risk management framework and corporate governance are in line with industry practices. The bank is fully-owned by Bank of Communications Co., Ltd.; therefore, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance to the parent, the parent's oversight of its subsidiary board and the regulated nature of both entities. The bank's risk management function has shown a conservative stance, illustrated by consistently low nonperforming loan ratios.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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 appoints executives to certain key positions and is closely engaged 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

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)

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 5

Banco BOCOM BBM S.A.

Macro Factors							
Weighted Macro Profile		Moderate	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.2%	a2	↔	baa3	Sector concentration	Single name concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	5.9%	caa2	↔	b2	Expected trend		
Profitability							
Net Income / Tangible Assets	1.0%	ba1	↔	ba1	Earnings quality		
Combined Solvency Score		ba2		ba2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	57.9%	caa1	↔	b3	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	39.8%	baa1	↔	baa3	Quality of liquid assets		
Combined Liquidity Score		ba3		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				-			
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 6

Category	Moody's Rating
BANCO BOCOM BBM S.A.	
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)
PARENT: BANK OF COMMUNICATIONS CO., LTD.	
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 and Baseline Credit Assessment.

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