

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades BOCOM BBM's deposit ratings to Baa3, outlook stable

16 Sep 2024

New York, September 16, 2024 -- Moody's Ratings (Moody's) has today upgraded Banco BOCOM BBM S.A.'s (BOCOM BBM) long- and short-term local and foreign currency deposits ratings to Baa3/Prime-3, from Ba1/Not Prime, as well as the bank's adjusted Baseline Credit Assessment to baa3, from ba1. Concurrently, we affirmed the bank's ba2 standalone Baseline Credit Assessment (BCA), as well as its Baa3/Prime-3 long- and short-term local and foreign currency counterparty risk ratings and Baa3(cr)/Prime-3(cr) long-term and short-term Counterparty Risk Assessments. The outlook on the long-term deposits ratings remains stable.

RATINGS RATIONALE

The upgrade of BOCOM BBM's deposits ratings to Baa3 from Ba1 reflects our assessment of increased affiliate support from parent Bank of Communications Co., Ltd (BoCom, A2 stable, baa3), following the completion of BoCom's acquisition of a 20% remaining stake in BOCOM BBM. This results in BoCom owning 99.8% of the Brazilian subsidiary, attesting its strategic importance to the Group. BOCOM BBM's deposits ratings now incorporate two notches of uplift from the ba2 BCA reflecting our revised assessment of very high affiliate support.

In affirming BOCOM BBM's ba2 BCA, we acknowledge the bank's robust risk management standards, demonstrated by a consistent reporting of problem loans below 1% of gross loans over the past five years. This key credit strength has mitigated risks associated with an intrinsically large loan concentration in the rural sector, as well as among the top 20 clients, which accounted for 435% of tangible common equity (TCE) in June 2024, up from 346% a year earlier. In addition, the bank has shown accelerated growth since its acquisition by BoCom in 2016, a period in which the bank reported a compounded annual growth rate (CAGR) of 35% in loans. This sustained business growth has supported profitability, amid a highly competitive landscape, and enhanced earnings diversification, as the bank has broadened the offer of complementary fee-based products to its expanding client base.

The bank's net income to tangible banking assets stayed at 0.9% in the six months ended in June 2024, consistent with the average ratio reported in the 2020-2023 period. Profitability has been bolstered by higher domestic capital market activity, which helped offset lower net-interest margins. Consistent earnings generation will continue to underpin steady core capitalization, with our preferred measure of TCE to risk weighted assets remaining close to 6%. We expect the bank's shareholders to remain committed to the growth strategy of the Brazilian subsidiary by retaining earnings and providing capital injections when needed, likely through additional purchases of perpetual bonds, to sustain regulatory capital buffers.

The ba2 BCA also reflects BOCOM BBM's prudent management of maturity mismatches, strong liquidity position, and improved funding granularity as the bank leverages its sizeable agribusiness credit portfolio to issue agribusiness-linked notes (LCAs) to retail customers. These factors help to mitigate risks arising from a largely wholesale funding structure.

The stable outlook reflects our expectation that the bank will maintain stable capitalization and disciplined risk management practices over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

BOCOM BBM's BCA could face upward pressure if the bank effectively reduces credit and funding concentrations, and consistently strengthens its core capital position. However, a BCA upgrade would also hinge on an improvement in the Government of Brazil's sovereign bond rating, currently at Ba2 with a positive outlook. A multi-notch upgrade in the parent bank's BCA could prompt an upgrade in BOCOM BBM's deposits ratings, also contingent on improvement in the Government of Brazil's sovereign bond rating.

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 deposits ratings.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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