

CREDIT OPINION

8 October 2024

Update



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RATINGS

Banco BOCOM BBM S.A.

Domicile	Rio de Janeiro, Rio de Janeiro, Brazil
Long Term CRR	Baa2
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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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	Baa3
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.

Contacts

Daniel Girola +55.11.3956.8729
VP-Senior Analyst
daniel.girola@moodys.com

Anita Meyer +55.11.3043.6064
Ratings Associate
anita.meyer@moodys.com

Ceres Lisboa +55.11.3043.7317
Associate Managing Director
ceres.lisboa@moodys.com

» Contacts continued on last page

Banco BOCOM BBM S.A.

Update following CRR and CR Assessment upgrade

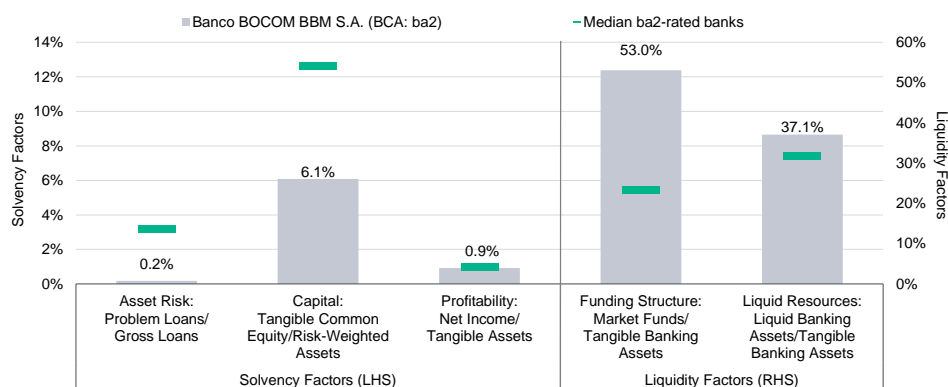
Summary

[Banco BOCOM BBM S.A.](#)'s (BOCOM BBM) Baseline Credit Assessment (BCA) of ba2 reflects 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. 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.

BOCOM BBM's Baa3 deposit ratings reflects our assessment of very high affiliate support from parent [Bank of Communications Co., Ltd](#) (BoCom, A2 stable, baa3¹), resulting in two notches of uplift from the ba2 BCA.

Exhibit 1

Rating Scorecard - Key Financial Ratios As of June 2024



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 Ratings

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.
- » Lower core capitalization compared to similarly rated peers.

Rating outlook

All of BOCOM BBM's ratings have a stable outlook that incorporates 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

- » 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 deposit ratings, also contingent on improvement in Brazil's sovereign bond rating.

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.
- » 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.moody's.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

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

	06-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (BRL Million)	30,808.9	27,765.9	22,567.5	15,649.2	13,376.3	26.9 ⁴
Total Assets (USD Million)	5,546.7	5,716.0	4,274.4	2,806.4	2,575.2	24.5 ⁴
Tangible Common Equity (BRL Million)	1,191.4	1,162.6	894.5	792.7	697.9	16.5 ⁴
Tangible Common Equity (USD Million)	214.5	239.3	169.4	142.1	134.4	14.3 ⁴
Problem Loans / Gross Loans (%)	0.1	0.2	0.2	0.2	0.1	0.2 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	6.1	6.5	5.5	7.3	8.4	6.8 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.4	2.1	2.7	1.3	0.6	1.6 ⁵
Net Interest Margin (%)	2.5	2.9	2.4	2.9	2.5	2.6 ⁵
PPI / Average RWA (%)	3.0	3.1	2.6	3.4	3.1	3.0 ⁵
Net Income / Tangible Assets (%)	0.9	1.0	1.0	0.9	0.9	0.9 ⁵
Cost / Income Ratio (%)	33.8	34.2	37.2	37.9	39.1	36.5 ⁵
Market Funds / Tangible Banking Assets (%)	58.9	53.0	57.9	61.9	57.1	57.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	38.2	37.1	39.8	45.4	44.6	41.0 ⁵
Gross Loans / Due to Customers (%)	129.0	127.9	145.7	157.3	139.3	139.8 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.

Moody's Ratings 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 August 2024, the Chinese-based parent concluded the acquisition of the remaining 20% of the shares that were owned by the Mariani family.

Detailed credit considerations

Effective risk management supports track record of strong asset quality

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 opened access to a new universe of borrowers including large corporates and Chinese companies. This expansion towards larger sized clients has led to increased single-borrower concentration, with the top 20 clients accounting for 38% of total credit exposure and 435% of tangible common equity (TCE) as of June 2024, up from 346% a year earlier. The bank's significant exposure to the agricultural sector, at 46% of the loan portfolio, may also add volatility to asset quality.

BOCOM BBM mitigates concentration risks by focusing on clients with robust credit fundamentals, while its rural loan portfolio is relatively diversified in terms of subproducts and geography. The bank's problem loans decreased to BRL18.1 million in June 2024, from BRL30.3 million a year earlier, and remained at low levels, at 0.1% compared to the banking system average of 3.1%. As of June 2024, loan loss reserves accounted for 0.6% of gross loans.

In the last 12 months ended in June 2024, BOCOM BBM's total credit exposure – including issued guarantees and private securities – increased by 15%, to BRL17.3 billion. This expansion marked a deceleration from the previous year when the bank reported a 24% growth, and was mainly focused on financial institutions, Chinese subsidiaries and domestic large corporates. Companies with annual revenues between BRL400 million and BRL3 billion, and above 3 billion accounted for 56% and 18% of total exposure, respectively. Credit to midsize enterprises (SME) represented 4% of total exposure and were originated with stricter collateral requirements, with loans on a clean basis accounting for just 14% of the total, while the collateralization of the entire loan book stayed at 36% as of June 2024.

Looking ahead, elevated interest policy rates are likely to pose challenges to asset quality, though BOCOM BBM is anticipated to uphold adequate metrics, underpinned by its prudent risk management and lower concentration on segments more sensitive to shifts in the domestic economic cycle.

Earnings retention is supporting double-digit asset growth

Capital score of b2 reflects our expectation that BOCOM BBM will sustain steady core capitalization, bolstered by consistent earnings retention. Our assessment also incorporates the shareholders' commitment to the growth strategy of the Brazilian subsidiary, and potential capital injections, likely in the form of further perpetual bond purchases, should there be a need to maintain regulatory capital buffers.

As of June 2024, 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, remained virtually unchanged at 6.1% compared to a year earlier. Over the last three years, BOCOM BBM has reduced dividend payout ratio to roughly 30% and has issued tier I and II capital-eligible debt instruments to support its strong balance sheet expansion.

Total regulatory capital ratio increased to 15.2% in June 2024, from 14.3% a year earlier, propelled by an 85 basis points rise in the common equity tier 1 ratio to 9.2%.

BOCOM BBM continues to show steady profitability in diverse cycles

BOCOM BBM's Profitability score of baa3 reflects the bank's track record of consistently generating stable profits across different economic and business cycles.

BOCOM BBM reported a bottom line of BRL 142 million in the first six months of 2024, a 9.7% increase compared to the previous year. The bank's net income to tangible banking assets stayed at 0.9% in the semester, consistent with the average ratio reported in the 2020-2023 period. For the six months ending June 2024, the net interest margin decreased to 2.5% from 2.9% in the previous year, due to intensified competition and a lower risk appetite. However, the three-fold increase in fees from debt issuance structuring amid higher domestic capital market activity helped to offset lower margins.

Operating expenses outpaced inflation to bolster BOCOM BBM's growth strategy, yet the cost-to-income ratio stayed stable at 34%, consistent with the previous year and below the five-year average of 39%. This indicates that efficiency has consistently improved over the last years as the bank gains scale.

As BOCOM BBM expands its customer base, the bank is simultaneously diversifying its portfolio with a focus on complementary products such as credit funds management, local debt capital markets structuring and derivatives sales. Non-interest income increased by 42% in the first half of 2024 compared to the previous year, accounting for 20.5% of net revenue.

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

The Combined Liquidity score of ba2 reflects the large share of market funding in the bank's funding structure, as well as its prudent liquidity and asset-liability management.

In the past three years, BOCOM BBM has leveraged from its sizeable agribusiness credit portfolio to expand issuances of agribusiness-linked notes (LCAs). These notes, which are a cost-effective, deposit-like instrument, are entirely sourced through third-party investment platforms. As of June 2024, individual investors accounted for 35% of total funding, from 43% a year earlier, reflecting a more granular base.

However, market funds to tangible banking assets ratio increased to 59% in June 2024, up from 54% the previous year. BOCOM BBM has strategically focused on broadening its relationship with financial institutions, and borrowings sourced from correspondent banks increased to 7% of total funding, from 2% a year earlier. Funding provided by BoCom Group continued to represent the bulk of market funding, making up 35% of the total as of June 2024. The rest of the market funding is basically comprised of interbank deposits and repurchase agreements, collectively accounting for 22% of the total, and local-currency debt instruments (letras financeiras), making up 15%.

To mitigate funding risk, BOCOM BBM holds a large position of liquid assets, sufficient to comfortably cover the 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, the 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 (Ba1 positive) 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% and 2.2% respectively, after growing around 3.0% in the previous couple of years.

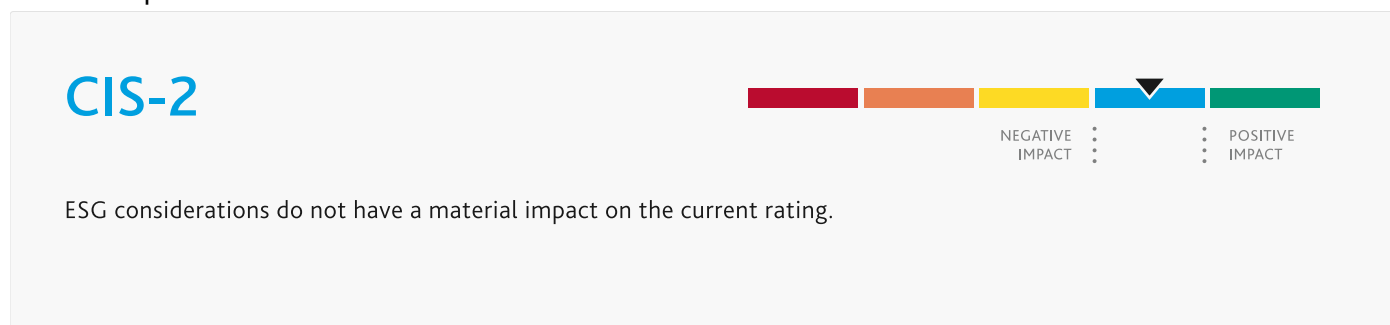
Our assessment acknowledges the current momentum as Brazil's banking system moves out of the credit cycle's downturn, with declining but still-high delinquency ratios and household indebtedness amid tighter liquidity on global capital markets, which will continue to pressure credit conditions ahead.

ESG considerations

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

Exhibit 3

ESG credit impact score

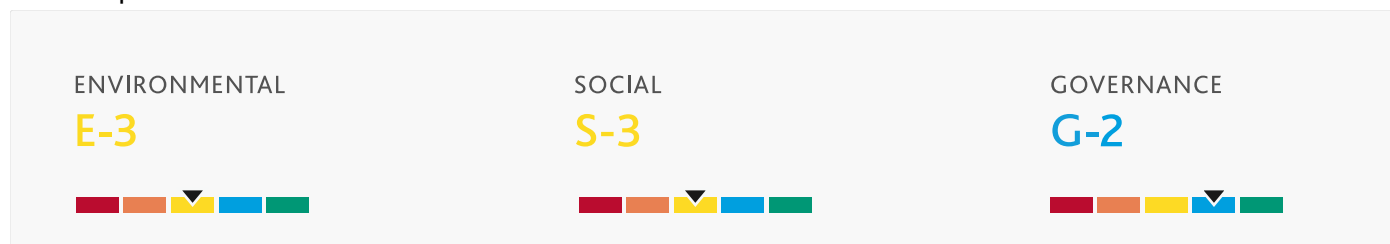


Source: Moody's Ratings

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 Ratings

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

BOCOM BBM faces moderate social risks related to customer relations. The bank's developed policies and procedures, mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation; BOCOM BBM has activities primarily in Brazil, a country which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

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 Moodys.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 very high probability of affiliate support for BOCOM BBM from its parent bank, BoCom, given its 99.8% 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 baa3 incorporates a two-notch uplift from its ba2 BCA.

Government support

BOCOM BBM's local-currency deposit rating of Baa3 reflects its baa3 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 Baa2(cr)/Prime-2(cr)

The CR Assessment is one notch above the bank's Adjusted BCA of baa3, and, therefore, above the deposit rating of the bank, reflecting our view that its probability of default is lower at the level of operating obligations than of deposits. This CR Assessment reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations.

Counterparty Risk Ratings (CRRs)

BOCOM BBM's CRRs are positioned at Baa2/Prime-2

BOCOM BBM's global local- and foreign-currency CRRs are positioned at Baa2 and Prime-2, three notches above the bank's BCA.

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

Rating Factors

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)	6.1%	caa1	↔	b2	Expected trend		
Profitability							
Net Income / Tangible Assets	0.9%	ba1	↔	baa3	Earnings quality		
Combined Solvency Score		ba1		ba2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	53.0%	caa1	↔	b2	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	371%	baa1	↔	baa1	Quality of liquid assets		
Combined Liquidity Score		ba3		ba2			
Financial Profile				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Ba1			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				2			
Adjusted BCA				baa3			
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	baa2	-	Baa2	Baa2	
Counterparty Risk Assessment	1	0	baa2 (cr)	-	Baa2(cr)		
Deposits	0	0	baa3	-	Baa3	Baa3	

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

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO BOCOM BBM S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(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 Ratings

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and Baseline Credit Assessment.

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Contacts

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Ceres Lisboa +55.11.3043.7317
Associate Managing
Director
ceres.lisboa@moodys.com

Anita Meyer +55.11.3043.6064
Ratings Associate
anita.meyer@moodys.com