



RATING ACTION COMMENTARY

Fitch Affirms BOCOM BBM's LC IDR at 'BB+' and National Rating at 'AAA(bra)'; Outlook Stable

Wed 08 Apr, 2020 - 10:26 AM ET

Fitch Ratings - Sao Paulo - 08 Apr 2020: Fitch Ratings has affirmed Banco BOCOM BBM S.A.'s (BOCOM BBM) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BB', LT Local Currency IDR at 'BB+' and LT National Rating at 'AAA(bra)'. The Rating Outlooks on the LT IDRs and National Ratings remain Stable. Fitch also affirmed BOCOM BBM's Support Rating (SR) at '3' and Viability Rating (VR) at 'bb-'.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND SR

BOCOM BBM's IDRs and National Ratings are driven by expected support from the Bank of Communications Co, Ltd. (BOCOM; LT FC IDR A/Stable and VR bb-), which owns 80% of BOCOM BBM. BOCOM BBM's LT FC IDR is constrained by Brazil's Country Ceiling of 'BB', while its LT LC IDR is two notches above Brazil's long-term

rating (LT FC and LC IDRs BB-/Stable), which is the usual maximum uplift Fitch applies to Brazilian financial institutions owned by strong foreign shareholders. The Stable Outlooks on BOCOM BBM's IDRs mirror the Outlook on the sovereign ratings.

Under Fitch's assessment, state support to BOCOM would flow through to BOCOM BBM, should the need arise. This is based on the view that the parent regulators would likely be in favor of BOCOM supporting its Brazilian subsidiary and that any required support would be immaterial relative to the ability of BOCOM to provide it.

Fitch considers BOCOM BBM a strategically important subsidiary of BOCOM, given the potential synergies between the two entities, BOCOM's long-term growth plans in Brazil, high level of management and operational integration, the largely fungible capital and funding, BOCOM's large majority stake in BOCOM BBM, the expected rise in the proportion of parental non-equity funding, and the combined parent and local branding. BOCOM BBM's Support Rating reflects the moderate probability of support by BOCOM and is constrained by Brazil's country risks.

VR

BOCOM BBM's VR reflects its moderate franchise in the highly concentrated Brazilian banking sector and its stable but specialized business model that focuses on corporate lending. It also takes into account the bank's risk appetite that is increasing under its revised strategy following the change in ownership.

The deteriorating operating environment as a result of the coronavirus will pressure the bank's asset quality and profitability metrics, representing a near-term risk to the ratings. BOCOM BBM's Capitalization is solid and funding and liquidity is comfortable and benefits from ordinary support from BOCOM. The bank's Viability Rating also captures constraints imposed by the operating environment.

In line with its strategy adopted since the ownership change, BOCOM BBM has grown faster than peers in the past two years. Total credit risk exposure (loans, guarantees and private securities) grew 37.5% and 20.2%, in 2019 and 2018, respectively. In 2020, given the most challenging operating environment, growth should be slower. BBM BOCOM maintains executives with considerable experience in the local market and good corporate governance practices.

BOCOM BBM's impaired loans (D-H) Ratios were only 1.0% of gross loans as of December 2019 (0.9% as of December 2018 and 2.6% in December 2017). BOCOM BBM's profitability indicators improved in 2018 and 2019, with operating profit-to-RWAs increasing to 2.4% and 2.3%, respectively, from an average of 1.6% between 2014 and 2017.

BOCOM BBM has a solid capital base that was made up fully of Core Equity Tier 1 capital at end-December 2019. BOCOM BBM has a stable and adequate funding base that benefits significantly from ordinary support provided by BOCOM. The bank's funding base is concentrated, but related parties make up a meaningful portion of the total. In March 2020, BOCOM utilized USD67 million of its credit line with BOCOM, as a way to support the continuity of the bank's growth. In December 2019, the bank's loans-to-deposits ratio (including deposit-like financial bills) was an adequate 132% (112% in December 2018). Local authorities have taken measures to ease potential impacts of the recent crisis due to the global coronavirus outbreak on market liquidity. However, Fitch still expects some deterioration in liquidity metrics in the medium to long term on the peer group of banks that BOCOM BBM is in. Although in BOCOM BBM's case, these is expected to remain commensurate with the bank's ratings, Fitch will continue to monitor its liquidity trends given the current operating environment.

RATING SENSITIVITIES

IDRS AND SR

BOCOM BBM's IDRs and SR remain constrained by the sovereign ratings. While not likely given the current operating environment, factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade or positive rating action on the sovereign.

This would result in a similar action on the bank's long-term IDRs, while a sovereign rating upgrade or a revision of its outlook to Positive could lead to a review of the ratings.

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

- A sovereign downgrade or a revision of the sovereign's Rating Outlook to Negative;
- A change in Fitch's assessment of BOCOM's willingness to support BOCOM BBM;
- A multiple-notch downgrade of BOCOM's ratings.

NATIONAL RATINGS

Changes in BOCOM BBM's IDRs or in the bank's credit profile relative to its Brazilian peers could result in changes in its national ratings.

VR

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

- A sovereign downgrade or negative rating action;
 - A sustained decline in BOCOM BBM'S operating profit-to-RWAs ratio below 1.0%;
 - An increase in impaired loans (D-H) above 7% of gross loans for a sustained period.
- These later two factors are under pressure given the coronavirus outbreak,

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

- BOCOM BBM's VR has limited upside potential, as it captures constraints by its operating environment and company profile.

BEST/WORST CASE RATING SCENARIO

Ratings of Financial Institutions 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 <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

Bank of Communication

ESG CONSIDERATIONS

BOCOM BBM has an ESG Relevance Score of 4 for Governance Structure following the same score as your parent, as there is potential for significant state influence as owner or regulatory influence given a lack of independence from the state. This negatively affects the banks' credit profiles and is relevant to the rating in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING
-------------	--------

ENTITY/DEBT	RATING		
Banco BOCOM BBM S.A.	LT IDR	BB	Affirmed
	ST IDR	B	Affirmed
	LC LT IDR	BB+	Affirmed
	LC ST IDR	B	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

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

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Banco BOCOM BBM S.A. EU Endorsed

DISCLAIMER

ALL 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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING <https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1->

183c01b51b08/Rating%20Definitions%20-%203%20May%202019%20v3%206-11-19.pdf DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. 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](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 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. 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.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Banks Latin America Brazil

