FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Banque de Commerce et de Placements at 'BBB-'; Outlook Negative

Fri 19 Jun, 2020 - 12:54 PM ET

Fitch Ratings - London - 19 Jun 2020: Fitch Ratings has affirmed Banque de Commerce et de Placements SA's (BCP) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Negative Outlook and the bank's Viability Rating (VR) at 'bbb-'. A full list of ratings is detailed below.

KEY RATING DRIVERS

IDRs AND VR

The IDRs and VR of BCP benefit from its good capitalisation with adequate buffers above minimum requirements, and its established track record and demonstrated expertise in its core trade-finance activities. They also reflect adequate risk controls and an ability to adapt to changes in the numerous markets in which the bank operates. The ratings further take into account Fitch's view that specialist trade finance-focused banks are more exposed to emerging markets and to operational risk than commercial- and retail-banking businesses. The bank is based in Geneva, one of the world's leading commodity-trading hubs, which has proved advantageous in originating business.

The Negative Outlook on BCP's Long-Term IDR reflects our view that the fallout from the pandemic creates downside risks to our assessment of BCP's financial profile, particularly from lower revenue and the heightened risk of impairment losses, both of which could erode capitalisation and drive business volatility. At the same time, we believe that the ratings of BCP have some headroom to absorb moderate deterioration of its financial profile due to the pandemic. This is supported by BCP's consistent through-the-cycle execution record, conservative risk appetite and adequate capital base, all of which support the rating at its current level.

Fitch expects global economic growth to decline sharply in 2020 due to the economic and financial-market fallout from the pandemic. Fitch's baseline forecast sees global GDP falling 4.6% in 2020, followed by a recovery in 2021. We also expect the economies of the largest emerging markets to shrink 1.7% for 2020. This expectation is based on the crisis being broadly contained by 2H20, with material downside risk to these economic forecasts.

BCP's ratings are constrained by the company profile given the risks inherent in trade-finance activities, especially taking into account the bank's moderate size, niche franchise and high credit-risk concentrations. The bank's trade finance-focused business model is highly sensitive to exogenous risks, such as geopolitical developments and commodity-price volatility. It is also significantly exposed to operational risk, such as fraud and compliance, given the countries in which it operates, which are a mix of developed and emerging markets.

We believe that a prolonged downturn due to the pandemic could put pressure on BCP's structural profitability, and therefore the bank's business model, in the medium term. BCP's ancillary wealth management and treasury activities provide some revenue diversification but some of them, such as proprietary foreign-exchange and fixed-income trading, can result in earnings volatility.

Risks are well-managed, supported by the bespoke structuring of commodity-finance transactions, internal-risk limits that are subject to regular monitoring, and highly experienced staff with a sound knowledge of both key markets and the client base. BCP's impaired loans ratio can be volatile, reflecting high sensitivity to event risk from large business concentrations by obligor, industry and geography. BCP's non-performing asset ratio (including loan and non-loan exposures) was 1.2% at end-2019 but we estimate it roughly doubled to date in 2020 due to two large single impairment cases in 2Q20. The ratio still compares adequately with trade-finance peers'. Impaired loans are proactively and regularly monitored by management and provisioning is adequate.

Performance is satisfactory but can be variable over economic cycles, and earnings are dependent on maintaining strong business volumes, reflecting typically thin trade-finance margins. Operating profit declined in 2019 to CHF31 million (2018: CHF49 million), although pre-tax profit was stable year on year at CHF41 million due to the release of a tax provision in 2019. The drop in operating profit reflects the cessation of business intermediation in its niche markets midway through 2018 and greater US dollar swap costs. 2020 performance will be under pressure from lower trade revenues and increased loan impairment charges. Management expects BCP to be profitable for the full year although this assumption is sensitive to the risk of new impairment cases, in particular. Revenue fluctuations are partly mitigated by firm cost control and cost efficiency compares well with trade finance-focused peers'.

Similarly to other trade-finance banks, capitalisation is highly sensitive to shocks given the bank's concentration and operational risks, and the negative trend that we have assigned to this factor reflects our view of the increased risk of large, capital-eroding losses due to the pandemic. BCP's CET1 ratio of 14% at end-2019 was in line with trade finance peers' and provides adequate buffers above regulatory minimum requirements (10.5% minimum total capital ratio). Fitch's assessment of capitalisation is also supported by our expectation that the short-term nature of BCP's credit exposures, combined with a lower risk appetite than at other rated trade- finance peers, would enable BCP to swiftly de-leverage its balance sheet if needed, although significant deleveraging and reduced business volumes could damage the franchise. BCP reported a healthy Basel III leverage ratio of 11% at end-2019.

BCP relies mainly on short-term interbank borrowing as well as corporate deposits from long-standing trade-finance customers. The funding base is mainly in foreign currency (euros and US dollar), concentrated and short-term, although the bank also accesses medium-term funding via bilateral borrowing and repos. Our assessment of funding and liquidity benefits from BCP's liquid asset base given the short-term nature of the bank's trade-finance assets and fairly large holdings of liquid assets.

SUPPORT RATING

BCP is 69%-owned by Borak SA, a holding company controlled by the Turkish Karamehmet family, and Yapi ve Kredi Bankasi A.S. (YKB; B+/Negative/b+) is the minority owner. We believe that BCP's owners would be the primary source of external support if needed and base the Support Rating on our view of the likelihood of support from YKB, because Borak SA's ability to support BCP cannot be determined reliably.

In Fitch's view, the probability of YKB providing support for BCP in case of need is possible but cannot be relied on, reflecting YKB's weak credit profile compared with BCP's as well as BCP's limited synergies with the YKB group.

RATING SENSITIVITIES

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

The most immediate downside risk to BCP's ratings is the economic and financial-market fallout arising from the coronavirus outbreak as this represents a clear risk to our assessment of management and strategy, business model, earnings, asset quality and capitalisation.

The ratings could be downgraded if the bank's capital ratios weaken below 13% for a sustained period, or if we believe that efforts to maintain capitalisation by reducing risk-weighted assets result in lasting damage to BCP's franchise. Negative ratings pressure would also arise if management's solid record is undermined, for example, by a sharp decline in revenue or by material operational or credit losses beyond the new impairment cases that have arisen to date in 2020.

A strategic shift towards higher-risk exposures or increased concentrations in more volatile markets could also result in a downgrade, although this is not our base case given the bank's stable track record.

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

The Outlook may be revised to Stable and the ratings affirmed if the impact of the pandemic on the global economy is short-lived and if BCP emerges from the stress with adequate capitalistion and an intact franchise within the bank's niche activities.

The bank's VR and IDRs are high relative to other Fitch-rated specialist trade-finance banks', and constrained by the bank's business model, resulting in limited upside for the ratings in the event BCP is able to withstand rating pressure arising from the pandemic. However, maintaining sound asset quality and a strengthening of BCP's earnings and core capital base could be moderately positive for the bank.

BCP's Support Rating could be upgraded if there is a positive change in Fitch's view of both YKB's ability and, especially, propensity to support BCP.

BEST/WORST CASE RATING SCENARIO

International scale credit 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, 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.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to 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		
Banque de Commerce et de Placements SA	LT IDR	BBB- Rating Outlook Negative	Affirmed

ENTITY/DEBT	RATING		
	ST IDR	F3	Affirmed
	Viability	bbb-	Affirmed
	Support	5	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

Banque de Commerce et de Placements SA	EU Issued

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