

FITCH AFFIRMS BANQUE DE COMMERCE ET DE PLACEMENTS AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-London-27 July 2018: Fitch Ratings has affirmed Geneva-based Banque de Commerce et de Placements SA's (BCP) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook and the bank's Viability Rating (VR) at 'bbb-'. At the same time the bank's Support Rating has been downgraded to '5' from '4'. A full list of ratings is detailed at the end of this commentary.

Fitch has downgraded BCP's Support Rating (SR) to '5' from '4' following a revision of our support assumptions. Previously, Fitch had factored in a limited probability of support from BCP's 31%-owner Yapi ve Kredi Bankasi A.S. (YKB; BB/Negative/bb-). Following the recent downgrade of YKB, combined with the limited role YKB has in the bank, we believe the support from YKB, in case of need, is possible but cannot be relied upon.

KEY RATING DRIVERS

IDRs AND VR

The IDRs and VR of BCP benefit from its demonstrated expertise and extensive track record in structuring trade finance transactions, while controlling risk and adapting to changes in the numerous markets in which the bank operates. The bank is based in Geneva, one of the world's leading commodity trading hubs, which has proved advantageous in originating business.

Our assessment of BCP's operating environment reflects the bank's domicile in Switzerland (AAA/Stable), regulation by the Swiss bank regulator FINMA, and access to a large base of core Swiss clients as well as the Swiss National Bank where BCP places excess liquidity. The ratings also reflect significant cross-border activity, including business in and companies trading in weaker emerging markets.

Fitch views specialist trade finance-focused banks as more exposed to emerging markets and to operational risk than commercial and retail banking businesses. Therefore, BCP's ratings are somewhat constrained by the company profile, especially taking into account the bank's fairly moderate size, niche franchise and high credit risk concentrations. The bank's trade finance-focused business model is also 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.

The risks are also managed through the bespoke structuring of commodity finance transactions, internal risk limits that are subject to regular monitoring, and sound knowledge of key markets and the client base. We believe that risk management is supported by highly experienced staff and the continued upgrading of BCP's internal control environment and processes.

Compared with Fitch-rated specialist trade finance peers, BCP's ancillary wealth management and treasury activities provide some revenue diversification. Some ancillary activities, such as proprietary foreign exchange and fixed-income trading, can result in earnings volatility. The risks arising from trading is, however, subject to a robust limits framework.

BCP's impaired loans ratio increased to 3.3% at end-2017 (end-2016: 1.2%), due to two large customer impairment cases arising in the year. Impaired loans appear to be proactively and regularly monitored by management and provisioning is adequate (the end-2017 coverage ratio was 79%). However, the increase in the impaired loan ratio over 2017 reflects the bank's 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) increased to 1.4% at end-2017, but remains low compared with trade finance peers'.

Performance is satisfactory but can be variable over economic cycles. For 2017 operating profit was weighed down by heightened loan impairment charges. Recent performance is supported by revenue growth due to increased business volumes and firm cost control.

Similarly to other trade finance banks, capitalisation is highly sensitive to shocks given the bank's concentration and operational risks, but is more commensurate with risk than at its peers. BCP's common equity Tier 1 (CET1) ratio of 15.7% at end-2017 compares well with peer's and is above regulatory minimum requirements. The short-term nature of its credit exposure, 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, and supports its capitalisation. BCP reported a healthy Basel III leverage ratio of 7.4% at end-2017.

For funding, 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. Nevertheless BCP's liquidity is adequate 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 YKB is the minority owner. We believe that BCP's owners would be the primary source of external support if needed and base our 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. BCP's Support Rating has been downgraded to '5' to reflect the weakening of YKB's ability to support but also BCP's limited synergies with the YKB group.

RATING SENSITIVITIES

IDRS AND VR

The bank's VR and IDRs are high relative to other Fitch-rated specialist trade finance banks, and somewhat constrained by the bank's business model. An upgrade would be contingent on the bank's sound asset quality being maintained and on a further strengthening of earnings and the bank's core capital base.

The ratings could be downgraded if management's solid track record is undermined, for example, by a sharp decline in revenue or by material operational or credit losses. 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.

SUPPORT RATING

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

The rating actions are as follows:

Long-Term IDR affirmed at 'BBB-'; Outlook Stable

Short-Term IDR affirmed at 'F3'

Viability Rating affirmed at 'bbb-'

Support Rating downgraded to '5' from '4'

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Applicable Criteria
Bank Rating Criteria (pub. 22 Jun 2018)
<https://www.fitchratings.com/site/re/10034713>

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