FitchRatings

Banque de Commerce et de Placements SA

Key Rating Drivers

Niche Franchise, Conservative Risk Appetite: Banque de Commerce et de Placements SA's (BCP) ratings are underpinned by a more conservative risk appetite than its trade finance peers', and its adequate capital buffers above regulatory requirements. The ratings also reflect its niche franchise with a focus on international trade finance, which benefits from its long-standing expertise and demonstrated ability to adapt to changing operating environments.

Concentrations Drive Asset Quality: BCP has stronger asset quality than its trade finance peers, although its metrics may be volatile due to business concentrations by obligor, industry and geography. The bank recorded exceptionally high loan impairment charges (LICs) in 2020 as it was defrauded by a few large counterparties. These fraud cases were largely systemic and have affected most banks involved in international trade finance. Fitch Ratings believes these large LICs will not be repeated to the same extent in 2021-2022.

Good Profitability Despite Low Margins: Traditional trade finance activities, which account for the majority of BCP's revenues, are a low-margin, volume-driven business. The bank has been able to maintain a stronger record of operating profitability than some of its trade finance specialist peers due to ancillary revenues, limited cost growth, and generally low LICs relative to the risk concentrations on its balance sheet.

Adequate Capital Buffers: With a 14.2% common equity Tier 1 (CET1) ratio at end-2020, BCP has maintained satisfactory buffer above regulatory requirements. The short maturity of BCP's transactions allows the bank to rapidly scale down its risk-weighted assets (RWAs) and strengthen its capital ratios when needed. We expect the bank will continue to manage its capital conservatively in the medium term given its small capital base in relation to its business concentrations.

Short Maturity of Assets: BCP relies mainly on short-term interbank borrowing as well as corporate deposits from trade finance customers. The funding base is predominantly in foreign currency, concentrated and short-term. 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.

Rating Sensitivities

Negative Outlook: Downside risks to our assessment of BCP's financial profile remain due to the global pandemic. Downside risks could be in the form of larger credit losses or weaker revenues if the return to pre-crisis levels for global trade flows is disrupted. BCP's consistent execution record through the cycle, its more conservative risk appetite than trade finance peers', and adequate capital buffers are mitigating factors and support the bank's ratings.

Weaker Capital, Heightened Risk Appetite: Although capitalisation metrics fluctuate depending on business volumes, we would likely downgrade the ratings if the bank's CET1 ratio falls and remains below 13% for an extended period. A deviation from the bank's conservative risk appetite would also be credit-negative.

Business Resilience: We would likely revise BCP's Rating Outlook to Stable if the bank was able to confirm the resilience of its business model despite pandemic disruption. We would view controlled revenue growth, while maintaining a conservative risk appetite and healthy coverage of minimum capital and liquidity requirements, as an indication of resilience.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Viability Rating	bbb-
Support Rating	5
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Banque de Commerce et de Placements at 'BBB-'; Outlook Negative (June 2021)

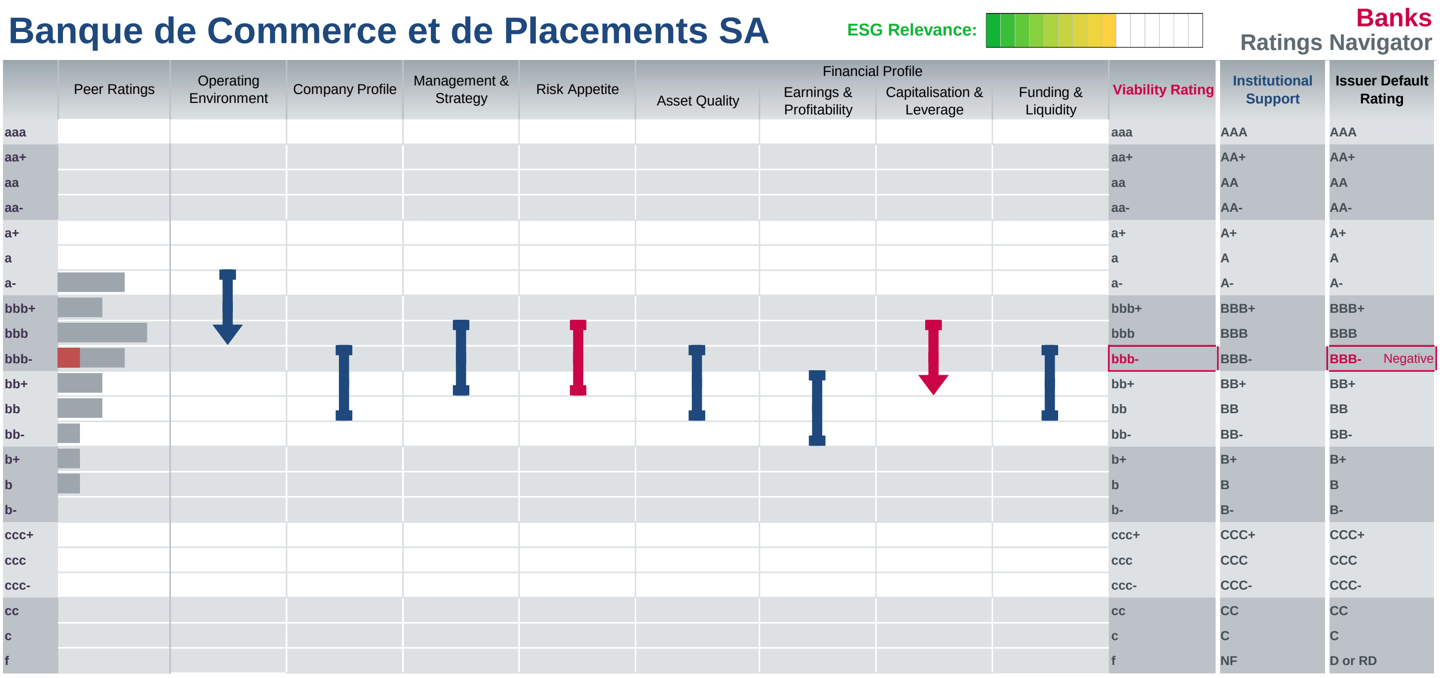
Global Economic Outlook (June 2021)

Analysts

Gianluca Romeo
+39 02 879087 201
gianluca.romeo@fitchratings.com

Lukas Rollmann
+33 1 44 29 91 22
lukas.rollmann@fitchratings.com

Ratings Navigator



Significant Changes and Latest Developments

Downside Risks Remain for Bank's Operating Environment

Our assessment of BCP's operating environment reflects the bank's exposure to potentially more volatile emerging and frontier markets, which induces increased levels of operational risk for the bank. We believe there is continued downside risk although BCP benefits from being incorporated and supervised in Switzerland.

Prospects for a recovery in world trade have improved as merchandise trade expanded more rapidly than expected in 2H20 owing to major government policy interventions. WTO estimates the volume of merchandise trade will increase at a high single digit rate in 2021 after having fallen by about 5% in 2020. A recovery to pre-pandemic levels will depend on the pandemic, however, and risks remain tilted to the downside as weakened public finances and political risk continue to affect several countries in which BCP operates.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- ■ Higher influence
- ■ Moderate influence
- ■ Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Navigator Peer Comparison

Peer Group Summary	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
Banque de Commerce et de Placements SA	bbb+ ▼	bbb+ ■	bbb- ■	bbb- ■	bb+ ■	bb ■	bbb- ▼	bb+ ■	bbb-
Arap Turk Bankasi A.S.	b ▼	b+ ▼	b+ ■	b+ ■	b+ ▼	b+ ■	b+ ■	b ■	b+
Banca UBAE S.p.A.	bb ▼	b+ ▼	b+ ■	b+ ■	b ▼	b- ▼	b+ ▼	bb- ■	b+
FIM Bank p.l.c.	bb+ ▼	b+ ▼	b+ ▼	b+ ■	b ▼	b- ▼	b ▼	bb- ■	b
Union de Banques Arabes et Francaises - U.B.A.F.	bbb- ▼	bb- ■	bb ■	bb ■	bb- ■	b- ■	bb- ■	bb+ ■	bb-

Source: Fitch Ratings

Company Summary and Key Qualitative Assessment

Niche Commodity Trade Finance Franchise

Geneva-based BCP has a niche franchise in commodity trade finance and focuses on traditional trade finance transactions such as import-and-export letters of credit and market guarantees. BCP's transactions mainly involve oil and derivatives, metals and soft commodities to a lesser extent. The bank's highly experienced staff, nimble operations and well-established relationships with large Swiss commodity traders are key competitive advantages over larger universal banks. BCP generated annual volumes of about CHF28 billion over the past three years and maintained healthy deal flow throughout 2020, despite the pandemic.

The bank generates a significant portion of revenues from ancillary businesses. It has a small wealth management franchise with particular expertise in emerging-market fixed-income investments. The treasury operation is run as a profit centre by the bank with small position-taking in foreign exchange and rates.

Experienced Management, Consistent Strategy

BCP's management team comprises seasoned trade finance professionals, and we view management quality as a strength for BCP's ratings. We believe high risks inherent in the bank's business model with operations in some very challenging markets are partly offset by the management team's experience in the sector. The strategy is based on organic growth with existing customers and in commodities and transaction types where BCP has established expertise. The bank quickly adapts its country limit framework as risks emerge.

BCP's corporate governance is sound and provides reasonable protection for creditors' interests. It is jointly owned by Borak SA (69%, not rated), a Swiss holding company related to the Turkish Karamehmet family, and by Yapi ve Kredi Bankasi A.S. (YKB, 31%, B+/Negative) a Turkish bank in which Koç Holding, the largest Turkish industrial conglomerate, is the majority shareholder. There appears to be a clear distinction between the owners and the management of day-to-day operations.

Conservative Risk Appetite Relative to Business Risks

Prudent underwriting standards have ensured good asset quality metrics historically, although the nature of trade finance activities means that single-name concentration is high and individual impairment cases can be large. Underwriting standards are supported by BCP's transaction structures and policies and procedures, and by the bank's proactive behaviour in tightening standards when countries, commodity prices or industries become volatile.

Operational risk is a recurring component of trade finance activities, more so than in retail and commercial banking. BCP has historically been prompt in addressing instances of non-payment or fraudulent or missing documentation. For 2020 fraud cases specifically, BCP's legal and compliance team quickly resorted to arbitration procedures or filed criminal complaints to recoup its losses.

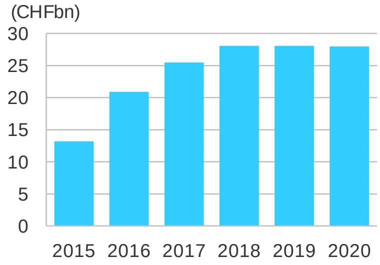
Average Exposure to Market Risks

BCP's exposure to market risk is average and mainly stems from foreign exchange (FX) and interest rate risks. BCP hedges its income due to trade activities being denominated in US dollars and euros while expenses are denominated in Swiss francs. Exposure to structural interest rate risk is moderate and mainly stems from BCP's treasury portfolio.

BCP also has a small proprietary FX and fixed-income trading activity alongside asset and liability management operations within its treasury department. This proprietary trading operation is meant to support earnings and consists in position-taking on G10 and emerging-market currencies and emerging-market sovereign and bank bonds. The bank runs these operations within conservative limits and actual losses from proprietary trading have historically been limited.

Trade Finance Volumes

Annual Turnover



Source: Fitch Ratings, BCP

Summary Financials and Key Ratios

	31 Dec 20		31 Dec 19	31 Dec 18	31 Dec 17
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(CHFm)	(CHFm)	(CHFm)	(CHFm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	42	37.0	43.5	49.5	43.2
Net fees and commissions	51	45.0	47.2	66.4	78.5
Other operating income	4	3.6	-0.5	-1.8	5.5
Total operating income	96	85.6	90.2	114.1	127.2
Operating costs	56	50.1	50.9	50.3	48.6
Pre-impairment operating profit	40	35.5	39.3	63.8	78.6
Loan and other impairment charges	54	47.8	8.5	14.4	36.3
Operating profit	-14	-12.3	30.8	49.4	42.3
Other non-operating items (net)	23	20.3	10.6	-8.4	-9.9
Tax	3	2.6	9.9	9.4	3.1
Net income	6	5.4	31.5	31.6	29.3
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	6	5.4	31.5	31.6	29.3
Summary balance sheet					
Assets					
Gross loans	2,259	2,010.4	1,931.1	1,865.2	1,745.0
- of which impaired	56	49.8	54.4	67.4	56.7
Loan loss allowances	25	22.1	48.7	57.8	44.6
Net loans	2,234	1,988.3	1,882.4	1,807.4	1,700.4
Interbank	858	763.6	725.6	992.3	1,100.2
Derivatives	6	5.1	5.5	3.6	5.8
Other securities and earning assets	397	353.5	318.4	305.0	263.4
Total earning assets	3,496	3,110.5	2,931.9	3,108.3	3,069.8
Cash and due from banks	382	339.9	343.4	510.7	2,194.8
Other assets	34	29.9	19.2	13.9	11.3
Total assets	3,911	3,480.3	3,294.5	3,632.9	5,275.9
Liabilities					
Customer deposits	1,725	1,534.8	1,055.2	1,248.3	1,593.2
Interbank and other short-term funding	1,582	1,407.9	1,671.9	1,831.9	3,162.7
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and derivatives	6	5.0	4.0	3.9	4.4
Total funding	3,313	2,947.7	2,731.1	3,084.1	4,760.3
Other liabilities	24	21.2	27.4	41.4	36.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	575	511.4	536.0	507.4	478.8
Total liabilities and equity	3,911	3,480.3	3,294.5	3,632.9	5,275.9
Exchange rate		USD1 = CHF0.88985	USD1 = CHF0.97165	USD1 = CHF0.9811	USD1 = CHF0.9758

Source: Fitch Ratings, Fitch Solutions, BCP

Summary Financials and Key Ratios

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-0.4	0.9	1.6	1.5
Net interest income/average earning assets	1.3	1.5	1.6	1.5
Non-interest expense/gross revenue	58.5	56.4	44.1	38.2
Net income/average equity	1.0	6.1	6.4	6.3
Asset quality				
Impaired loans ratio	2.5	2.8	3.6	3.3
Growth in gross loans	4.1	3.5	6.9	24.3
Loan loss allowances/impaired loans	44.4	89.5	85.8	78.7
Loan impairment charges/average gross loans	2.8	0.5	0.9	2.5
Capitalisation				
Common equity tier 1 ratio	14.2	14.0	14.8	15.7
Fully loaded common equity tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	14.7	16.3	14.0	9.1
Basel leverage ratio	11.3	11.0	10.4	7.4
Net impaired loans/common equity tier 1	5.8	1.2	2.1	2.8
Funding and liquidity				
Loans/customer deposits	131.0	183.0	149.4	109.5
Liquidity coverage ratio	165.0	199.6	n.a.	98.5
Customer deposits/funding	52.2	38.7	40.5	33.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, BCP

Key Financial Metrics – Latest Developments

Asset Quality Negatively Affected by Fraud Cases

BCP's operations in emerging market countries typically involve higher risk than domestically-focused retail and commercial banking activities. BCP's impaired loans ratio remained fairly stable at end-2020 at about 2.5% (including loans to banks and off-balance sheet exposures, impaired exposures/total exposures were 1.0% and also stable).

Stability in asset quality ratios is partly the result of the bank writing-off credit claims it deemed unrecoverable and continued credit expansion during the year. Write-offs, which were a key driver of the bank's high LICs for 2020, were mostly from BCP's exposure to fraud cases in Asia and the UAE. These cases were largely systemic for banks involved in trade finance activities and exceptional for BCP considering its record of good loan quality. We do not expect these high LICs to be repeated in 2021 as BCP substantially increased transaction monitoring and is focusing on long-standing customer relationships for new business.

Profitability Improvement Expected

BCP's revenue was fairly resilient in 2020 (minus 5% yoy) considering the significant disruption in trade flows from the global pandemic. Lower securities income as the bank strengthened its liquidity buffer, and negative currency translation impacts also weighed on the bank's performance. The cost of credit risk pushed BCP's operating profit into negative territory in 2020 and the bank reversed some of its provision for general banking risks to smooth earnings.

Business volumes picked up considerably towards year-end and we believe this momentum has carried over into 2021 with trade flows picking up and key commodities in high demand. We believe cautious business expansion, continued cost control and lower LICs than in 2020 will lead the bank's operating profitability to improve over the next two years.

Adequate Capital Buffers

The negative outlook on our assessment of BCP's capitalisation and leverage reflects increased vulnerability to shocks in the pandemic context given the bank's small capital base in absolute terms, although the bank maintains a satisfactory buffer above regulatory requirements. BCP compares well with peers on a leverage ratio basis (11.3% at end-2020) and its common equity Tier 1 ratio of 14.2% at end-2020 provided it with 3.7pp (CHF125 million) of buffer above its regulatory requirement.

BCP has adequate capital management with comprehensive stress-testing, and the short maturity of BCP's transactions allows it to quickly scale down its RWAs and strengthen its capital ratios when needed. The bank is mindful of managing exposures to individual counterparties in line with its large exposure limit, which is typically a constraint for smaller trade finance specialists like BCP and its direct peers. Dividend payouts have been moderate in recent years and BCP did not propose a dividend with respect to 2020 results.

Generally Stable Funding, Despite Concentrations

The bank gathers a large part of its funding on the interbank market and in the form of deposits from banks in developing countries. The latter originate from BCP's trade finance operations as the transactions are largely cash-collateralised. Deposits from corporate entities form the second pillar of BCP's funding.

Both of these funding sources are concentrated and can expose BCP to higher liquidity risks compared to retail deposits, but positively the bank's business is mostly short-term and driven by the amount of available resources. BCP is attentive to liquidity risk management and has conservative limits and stress testing policies in place. The bank's liquidity coverage ratio has averaged 170% throughout 2020 and is managed with a comfortable buffer above the 100% minimum requirement.

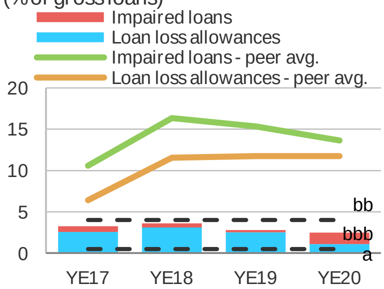
Note on Charts

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category.

Peer average includes Banque de Commerce et de Placements SA (VR: 'bbb-'), Union de Banques Arabes et Francaises - U.B.A.F. (bb-), Arap Turk Bankasi A.S. (b+), Banca UBAE S.p.A. (b+), FIMBank p.l.c. (b) and Trade Bank of Iraq (b-). Trade Bank of Iraq was excluded from the latest average calculation due to data unavailability.

Asset Quality

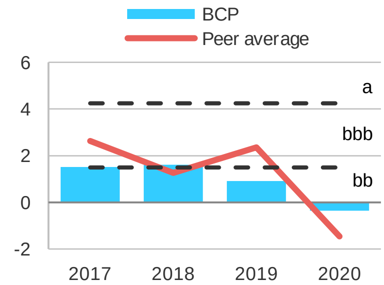
(% of gross loans)



Source: Fitch Ratings, banks

Operating Profit

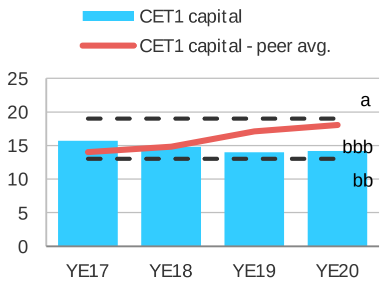
(% of risk-weighted assets)



Source: Fitch Ratings, banks

Regulatory Capital

(% of risk-weighted assets)



Source: Fitch Ratings, banks

Institutional Support Assessment

Institutional Support			Value
Parent IDR			B+
Total Adjustments (notches)			
Institutional Support:			**N/A**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation			✓
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group			✓
Potential for disposal			✓
Implication of subsidiary default			✓
Integration			✓
Size of ownership stake			✓
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding			✓
Legal commitments			✓
Cross-default clauses			✓

BCP is 69%-owned by Borak SA, a holding company controlled by the Turkish Karamehmet family, and 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, shareholder support is possible but cannot be relied on, considering YKB's weak credit profile compared with BCP's as well as BCP's limited synergies with YKB.

Environmental, Social and Governance Considerations

FitchRatings **Banque de Commerce et de Placements SA**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banque de Commerce et de Placements SA has 5 ESG potential rating drivers

- Banque de Commerce et de Placements SA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.