FitchRatings

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

Fitch Ratings - Milan - 10 Jun 2021: 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 are underpinned by its 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. However, BCP's ratings also reflect higher business and risk concentration levels than domestic retail and commercial banking peers'.

The Negative Outlook reflects downside risks from the global pandemic to our assessment of BCP's financial profile. 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. We believe BCP's consistent execution record through the cycle, more conservative risk appetite than trade-finance peers' and adequate capital buffers are mitigating factors and support the bank's ratings.

BCP's business model is centred on international trade-finance activities. The bank's transactions support trade flows of goods such as oil, metals and soft commodities, primarily in emerging-and-frontier markets. The bank's highly experienced staff, nimble operations and well-established relationships with large commodity trading firms are key competitive advantages compared with larger universal banks active in the same business segment. BCP's trade-finance activities typically involve higher sensitivity 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. Although high, we believe these risks are well-managed and the bank's operations are run within conservative limits.

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. BCP's impaired loan ratio remained fairly stable at end-2020 at about 2.5% (including loans to banks and off-balance sheet items, the ratio of impaired exposures to total exposures was also stable at 1%). However, the bank recorded exceptionally high loan impairment charges (LICs) compared with previous years 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. We believe these large LICs will not be repeated to the same extent in 2021-2022 as the bank has significantly bolstered transaction-monitoring.

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. BCP's revenues were fairly resilient in 2020, given the disruption to trade flows from the global pandemic but earnings were negatively affected by higher LICs. We believe the bank's operating profitability will rebound in the medium term with healthy revenue growth and lower LICs, but remain below historical levels given a still uncertain operating environment.

With a 14.2% common equity Tier 1 (CET1) ratio at end-2020, BCP continued to maintain satisfactory buffer above regulatory requirements, which also compares favourably with peers' on a leverage ratio basis (11.3% at end-2020). 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 the risks laid bare by the pandemic and its small capital in relation to its business concentrations.

BCP relies mainly on short-term interbank borrowing as well as corporate deposits from 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. The bank's liquidity coverage ratio averaged 170% throughout 2020 and is managed with comfortable buffers above regulatory minimums.

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, 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.

RATING SENSITIVITIES

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

We believe the pandemic continues to present medium-term risks for BCP, which negatively affect our assessment of its operating environment and solvency.

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 without credible plans to rebuild it. We would also view an erosion of BCP's capital base to the point of limiting its ability to originate new business as credit-negative. This could result from the materialisation of credit or operational risk in the form of large impairments or capital-depleting fines.

Evidence of a deviation from the bank's conservative risk appetite such as a shift towards higher-risk countries, counterparties or product types would also be credit-negative.

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

We would likely revise BCP's Rating Outlook to Stable if the bank is able to confirm the resilience of its business model despite the 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.

Rating upgrade is constrained by BCP's company profile.

We would likely upgrade BCP's Support Rating on a visible improvement in YKB's ability and propensity to support the bank.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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

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

Fitch Ratings Analysts

Gianluca Romeo
Director
Primary Rating Analyst
+39 02 879087 201
Fitch Ratings Ireland Limited Sede Secondaria Italiana Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8
Milan 20123

Lukas Rollmann
Associate Director
Secondary Rating Analyst
+33 1 44 29 91 22

Cristina Torrella Fajas
Senior Director
Committee Chairperson
+34 93 323 8405

Media Contacts

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Stefano Bravi
Milan
+39 02 879087 281
stefano.bravi@fitchratings.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Banque de Commerce et de Placements SA	LT IDR	BBB- ⊖	Affirmed		BBB- ⊖
	ST IDR	F3	Affirmed		F3

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Viability	bbb-	Affirmed		bbb-
	Support	5	Affirmed		5

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Banque de Commerce et de Placements SA	EU Issued, UK Endorsed

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