Fitch Ratings

Banks
Trade Finance Banks
Switzerland

Banque de Commerce et de Placements SA

Key Rating Drivers

Good Capitalisation; Established Record: Banque de Commerce et de Placements' (BCP) ratings benefit from its adequate capitalisation, its established record and demonstrated expertise in trade-finance activities, and the bank's adequate risk controls. The ratings also consider the greater exposure of trade finance-focused banks such as BCP to emerging markets and to operational risk than commercial and retail banking businesses.

Trade Finance Business Focus: BCP's ratings are constrained by the risks inherent in trade finance, especially considering the bank's moderate size, niche franchise and high credit risk concentrations. BCP's ancillary wealth management and treasury activities provide some diversification although proprietary foreign-exchange and fixed-income trading can result in earnings volatility.

Adequate Capitalisation: BCP's common equity Tier 1 (CET1) ratio of 14% at end-2019 provides adequate buffers above regulatory requirements. Like its trade-finance peers, concentration and operational risks mean capitalisation is highly sensitive to shocks, including due to the economic fallout from the pandemic. Fitch Ratings believes BCP could swiftly reduce risk-weighted assets (RWAs) if necessary to preserve capital ratios, although significant deleveraging and reduced business volumes could damage the franchise.

Concentrated but Well-Managed Credit Risk: BCP's non-performing asset ratio was 1.2% at end-2019, but we estimate it roughly doubled in 1H20 due to two large new impairment cases. Impaired loans are proactively monitored and we believe provisioning is adequate. 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.

Consistent but Variable Earnings: Performance is satisfactory but can be variable over economic cycles, and typically small trade-finance margins means earnings are dependent on maintaining strong business volumes. Earnings in 2020 will be pressured by likely lower trade revenues and increased loan impairment charges. Revenue fluctuations are mitigated by firm cost control and cost efficiency compares well with those of trade finance-focused peers.

Liquid Asset Base: BCP relies mainly on short-term interbank borrowing as well as corporate deposits from long-standing trade-finance customers, although the bank also accesses medium-term funding via bilateral borrowing and repos. The bank's funding position benefits from BCP's liquid, overall short-term and liability-driven asset base.

Rating Sensitivities

Negative Outlook on Coronavirus Disruption: The ratings could be downgraded if BCP's CET1 ratio weakens 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 the management's solid record is undermined, for example, by a sharp decline in revenue or by material additional operational or credit losses.

Limited Upside: BCP's ratings are high in relation to other Fitch-rated specialist trade-finance banks, and constrained by the business model. This results in limited ratings upside if BCP is able to withstand rating pressure arising from the pandemic. However, maintaining sound asset quality and strengthening BCP's earnings and core capital base could be moderately positive for the bank.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Local Currency	
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 2020)

Global Economic Outlook (June 2020)

Financial Data

Banque de Commerce et de Placements SA

	31 Dec 19	31 Dec 18
Total assets (USDm)	3,390.6	3,702.9
Total assets (CHFm)	3,294.5	3,632.9
Total equity (CHFm)	536.0	507.4

Source: Fitch Ratings

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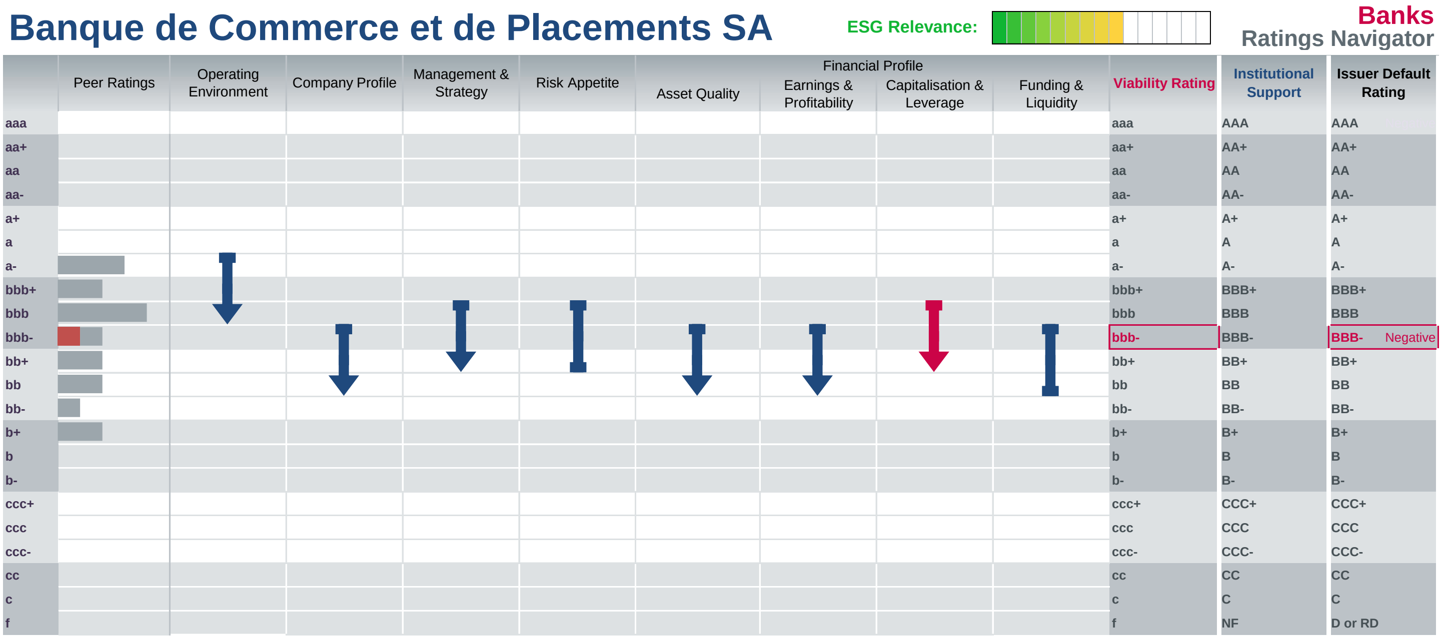
Ratings Navigator



Significant Changes

Outlook to Negative on Expected Coronavirus Impact

In April 2020 Fitch revised the Outlook on BCP's Long-Term IDR to Negative from Stable reflecting the increased downside risk to the ratings due to the expected impact of the coronavirus pandemic on the global economy. We believe 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 capital-eroding impairment losses due to asset quality deterioration, both of which could drive business model and company profile volatility.

We also see downside risks for BCP management's ability to execute on its strategy, particularly in terms of targeted earnings growth. At the same time, the ratings of BCP have some headroom to absorb moderate deterioration of its financial profile due to the pandemic. The Viability Rating (VR) is supported at its current level by BCP's adequate capital base, consistent through-the-cycle execution record and conservative risk appetite.

Fitch expects global economic growth to decline sharply in 2020 due to the economic and financial-market fallout from the pandemic. Fitch's baseline economic forecasts are based on the crisis being broadly contained in 2H20, with material downside risk to these economic forecasts. Fitch sees global GDP falling 4.6% in 2020, followed by a recovery in 2021; for Switzerland we expect GDP to shrink by 7% over 2020, also recovering from 2021. We expect the economies of the largest emerging markets will shrink by 1.6% overall in 2020.

Given the sensitivity of global demand to trade finance flows, we expect the slowdown in 2020 will weigh on BCP's full-year revenues, while the more difficult economic conditions also make impairment cases more likely.

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

Company Summary

Swiss Bank with Material Emerging Markets Exposure

BCP's weighted operating environment score based on geographic exposures is typically in the 'a' range - although the short-term nature of its transactions means the composition of BCP's business volumes by geography can be more volatile than those of a conventional commercial bank. The lower 'bbb+' assigned score reflects both this exposure volatility, and the fact that BCP's direct exposures to trade finance counterparties in highly-rated markets are themselves likely to be exposed to weaker countries.

BCP is domiciled in Switzerland and its significant domestic exposure reflects the extent of its relationships with its core client base of Swiss commodity trading companies, and the bank's placements of significant liquidity with the Swiss National Bank. Switzerland has a strong regulatory and legal framework, an established record of economic strength and stability, and a highly developed financial market.

Trade Finance-Focused Business Model; Some Earnings Diversification

BCP's company profile benefits from the bank's long-standing presence as a trade finance bank with a more stable performance record through the cycle compared to peers, and long-standing relationships with its core client base. BCP's ratings are constrained, however, by the risks inherent in trade-finance activities, as well as the bank's moderate size, niche franchise and high credit-risk concentrations. Trade finance and correspondent banking is BCP's focus and the main driver of revenues but ancillary treasury and wealth management activities also contribute to income. It has a more diverse franchise than its specialist trade finance peers - although earnings from trading activity are volatile and sometimes opportunistic.

Experienced Management But Growth Strategy May be Constrained by Pandemic

Trade finance business model risks are inherently high and the bank operates in some volatile markets, but we believe these risks are partly offset by BCP's experienced and long-standing management team, and a generally sound execution record over a long period.

BCP's strategy is well-articulated and consistent overall but can shift as the nature of the business requires management to respond flexibly to changes in market conditions. Management targets revenue growth and diversification in terms of clients, new markets and commodities. This strategy aims to offset slower global trade volumes and to compensate for lower revenues due to the cessation in business intermediation in BCP's niche markets midway through 2018. The management has made progress in increasing revenues and attracting new customers in line with its strategy, but we believe that the bank's ability to increase revenue volumes further is under pressure from lower margins and reduced demand for trade finance transactions due to the pandemic.

Prudent Underwriting Standards and Strengthened Risk Controls

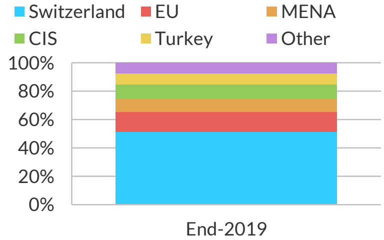
BCP's risk appetite is modest and supported by a proactive risk control framework, although the bank's business model drives inherently heightened operational risk. BCP's enterprise-wide risk-management framework is in line with international best practice, and risk controls are centralised and appear adequate for the size and complexity of the business.

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 and industries become volatile. This has ensured historically good asset-quality metrics, although single-name concentration in trade finance exposurers is typically high.

Market risk is average compared with peers and arises mainly from moderate foreign-exchange (FX) and interest-rate risks, with appropriate hedging techniques in place. Proprietary FX and fixed-income trading activity, which drive treasury earnings, is relatively large and can lead to some volatility but is subject to daily monitoring against conservative internal limits. Balance-sheet volumes can be volatile given market fluctuations and the overall short-term nature of the balance sheet. We view volume volatility as manageable given stable internal capital generation and adequate capitalisation, as well as strengthened risk management functions including increasing automation.

Total Business Volume[a]

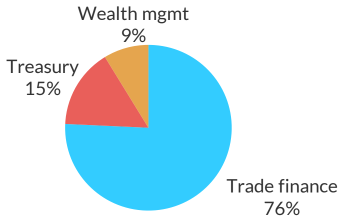
(By geography, end-2019)



[a] Business Volume = total assets + off-balance sheet
Source: Fitch Ratings; BCP

Operating Income

(By profit centre, 2019)



Source: Fitch Ratings; BCP

Summary Financials and Key Ratios

	31 Dec 19		31 Dec 18	31 Dec 17	31 Dec 16
	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	45	43.5	49.5	43.2	43.7
Net fees and commissions	49	47.2	66.4	78.5	68.9
Other operating income	-1	-0.5	-1.8	5.5	3.9
Total operating income	93	90.2	114.1	127.2	116.5
Operating costs	52	50.9	50.3	48.6	46.9
Pre-impairment operating profit	40	39.3	63.8	78.6	69.6
Loan and other impairment charges	9	8.5	14.4	36.3	1.7
Operating profit	32	30.8	49.4	42.3	67.9
Other non-operating items (net)	11	10.6	-8.4	-9.9	-34.0
Tax	10	9.9	9.4	3.1	5.4
Net income	32	31.5	31.6	29.3	28.5
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	32	31.5	31.6	29.3	28.5
Summary balance sheet					
Assets					
Gross loans	1,987	1,931.1	1,865.2	1,745.0	1,404.1
- Of which impaired	56	54.4	67.4	56.7	16.2
Loan loss allowances	50	48.7	57.8	44.6	15.5
Net loans	1,937	1,882.4	1,807.4	1,700.4	1,388.6
Interbank	747	725.6	992.3	1,100.2	1,135.6
Derivatives	6	5.5	3.6	5.8	3.3
Other securities and earning assets	328	318.5	305.0	263.4	236.2
Total earning assets	3,018	2,932.0	3,108.3	3,069.8	2,763.7
Cash and due from banks	353	343.4	510.7	2,194.8	1,870.7
Other assets	20	19.1	13.9	11.3	13.3
Total assets	3,391	3,294.5	3,632.9	5,275.9	4,647.7
Liabilities					
Customer deposits	1,086	1,055.2	1,248.3	1,593.2	1,903.1
Interbank and other short-term funding	1,721	1,671.9	1,831.9	3,162.7	2,241.7
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and derivatives	4	4.0	3.9	4.4	6.1
Total funding	2,811	2,731.1	3,084.1	4,760.3	4,150.9
Other liabilities	28	27.4	41.4	36.8	47.3
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	552	536.0	507.4	478.8	449.5
Total liabilities and equity	3,391	3,294.5	3,632.9	5,275.9	4,647.7
Exchange rate		USD1 = CHF0.97165	USD1 = CHF0.9811	USD1 = CHF0.9758	USD1 = CHF1.0178

Source: Fitch Ratings, Fitch Solutions, Bank

Summary Financials and Key Ratios

	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.9	1.6	1.5	2.4
Net interest income/average earning assets	1.5	1.6	1.5	1.7
Non-interest expense/gross revenue	56.4	44.1	38.2	40.3
Net income/average equity	6.1	6.4	6.3	6.9
Asset quality				
Impaired loans ratio	2.8	3.6	3.3	1.2
Growth in gross loans	3.5	6.9	24.3	30.7
Loan loss allowances/impaired loans	89.5	85.8	78.7	95.7
Loan impairment charges/average gross loans	0.5	0.9	2.5	0.2
Capitalisation				
Common equity Tier 1 ratio	14.0	14.8	15.7	14.8
Tangible common equity/tangible assets	16.3	14.0	9.1	9.7
Basel leverage ratio	11.0	10.4	7.4	8.2
Net impaired loans/common equity Tier 1	1.2	2.1	2.8	0.2
Funding and liquidity				
Loans/customer deposits	183.0	149.4	109.5	73.8
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	38.7	40.5	33.5	45.9
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank

Key Financial Metrics – Latest Developments

Concentrated but Adequately-Performing Loan Book

BCP's asset quality benefits from the bank's liquid balance sheet and historically low default rates which compare well with peers, and a loan book which is typically short-term and highly collateralised. However high counterparty concentrations make asset quality sensitive to event risk, and the negative trend on this factor reflects our view of the increased risk of further impairment cases through the crisis.

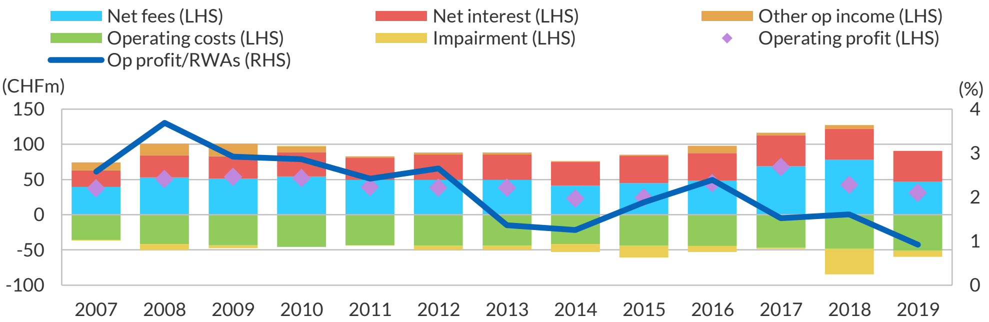
The non-performing assets (NPA; impaired loans/business volume) ratio can fluctuate given the short-term nature of the balance sheet and counterparty concentrations inherent to trade finance activities. At end-2019 the NPA ratio was 1.2%, but the ratio likely doubled due to new cases arising in 2Q20. High specific provisioning (89% of NPA at end-2019) suports adequate impairment coverage. The level of impaired loans has increased in recent years, including during the health crisis, although impairment charges to date have been comfortably absorbed by earnings. The bank identifies impairment cases early and is proactive in following up on outstanding cases.

BCP's securities book is small (CHF318 million at end-2019) and consists mainly of held-to-maturity corporate and government bonds with a typical duration of one-to-two years. The quality is adequate, with half of the end-2019 securities book to counterparties rated 'A-' or better. Just under one-third of the book is sub-investment grade, mainly related to bank exposures in Turkey, a market of which the management has a good understanding. Interbank assets (CHF726 million at end-2019) are a mix of short-term trade finance transactions and (mainly) short-term interbank placements, with a bias towards highly-rated counterparties in developed markets.

Good Earnings Record but Some Revenue Volatility

The bank has a good track record in generating profits but performance can vary over economic and interest-rate cycles, and will come under pressure due to the health crisis from likely revenue pressure and increased impairment charges. Trade finance margins are typically thin, meaning BCP's revenue is dependent on volumes. Loan impairment charges are generally low but are sensitive to changes to global trading conditions and commodity prices, and fluctuate through the cycle. Cost efficiency compares well with that of peers, reflecting management's focus on cost control.

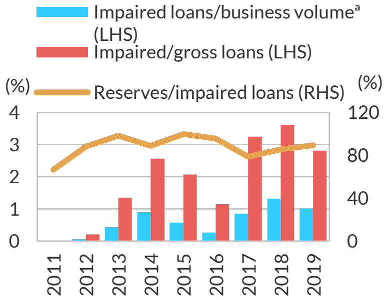
Consistent Profitability but Returns Can Fluctuate



Source: Fitch Ratings; BCP

In 2020 the bank expects a slowdown in trade finance earnings in 2Q20 particularly, partly due to lower trade volumes as well as the bank is now taking a more selective approach to new business, focusing on stronger-credit clients for new transactions. Despite this slowdown, as well as provisioning costs for the new impairment cases and negative mark-to-market movements on some securities exposures in 1H20, the management expects the bank to be profitable for the full year 2020. We view this expectation as feasible although believe there are downside risks from potentially materially higher impairment-related losses if further impairment cases arise.

Asset Performance



[a] On- and off-balance sheet assets
Source: Fitch Ratings, BCP

Adequate Capitalisation Above Minimum Requirements

BCP's CET1 ratio of 14% at end-2019 is well above minimum requirements. We believe capital ratios are sufficiently strong to absorb moderate pressure from the economic fallout of the pandemic, particularly from capital eroding losses. However a sustained decline in the CET1 ratio, particularly if it remains below the 13% minimum required under our benchmark to achieve a 'bbb' range capitalisation and leverage score, may be negative for BCP's VR.

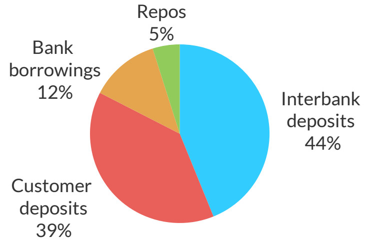
The short-term nature of BCP's credit exposures, combined with a lower risk appetite than at other rated trade-finance peers, would enable BCP to swiftly reduce RWAs by de-leveraging its balance sheet if needed. Significant deleveraging and reduced business volumes could damage the franchise, however. BCP's end-2019 Basel leverage ratio was healthy at 11%, compared to a minimum management target of 7%.

Liquid and Liability-Driven Balance Sheet Mitigate Short-Term Funding Profile

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. Funding 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, and from the liability-driven nature of activities. Liquidity is stable, well managed and supported by a large pool of mainly domestic liquid assets. The liquidity coverage ratio averaged a strong 200% in 4Q19, and balance-sheet liquidity benefits from the short-term nature of BCP's loan book and from off-balance-sheet transactions being unfunded.

Bank Debt Drives Funding

(Funding by type; end-2019)



Source: Fitch Ratings, BCP

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			✓

Limited Institutional Support Possible

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) 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 of '5' reflects the weakening of YKB's ability to support, but also BCP's limited synergies with the YKB group.

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 Priniciples 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.

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