**Banque de Commerce et de Placements SA (/gws/en/esp/issr/80362027)**

FitchRatings

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

Fitch Ratings-London-25 September 2017: 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. A full list of ratings is detailed at the end of this commentary.

KEY RATING DRIVERS
IDRs AND VR
BCP's Long and Short-Term IDRs are driven by the bank's standalone credit profile as captured in the Viability Rating (VR). The VR primarily reflects management's consistently strong record of executing on business growth focused on commodity trade finance and ancillary niches. The ratings benefit from BCP's 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. It is based in Geneva, one of the world's leading commodity trading hubs, which has proved advantageous in originating business.

Fitch's assessment of BCP's operating environment takes into account significant cross-border activity, largely to emerging markets, but also factors in the benefits from the bank's domicile in Switzerland (AAA/Stable), regulation by the Swiss bank regulator FINMA and core Swiss trading company clients. Placement of surplus liquidity with the Swiss National Bank, and in other highly rated developed market securities also support our operating environment assessment.

BCP's trade financing activities are primarily short-term, self-liquidating and underpinned by a range of security documentation. However, the nature of the bank's trade finance activities means that the business model is highly sensitive to exogenous risks, such as geopolitical risks and commodity price risk. It is also significantly exposed to operational risk, such as fraud and compliance, given the countries in which it operates. These risks are managed through 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. Furthermore, we believe that risk management is supported by highly experienced staff and continued upgrading of BCP's internal control environment and processes.

BCP carries out proprietary foreign exchange and fixed income trading, which adds diversity to earnings but is opportunistic and can result in earnings volatility. Trading is, however, subject to a robust limits framework.

Fitch views trade finance-focused banks as more exposed to global economic cycles 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, franchise and high credit risk concentrations. However, compared with Fitch-rated specialist trade finance peers, BCP's franchise is more diversified by business line and earnings, particularly given the bank's ancillary wealth management operations as well as treasury activity.

BCP has low levels of impaired loans (impaired loans/gross customer loans of 1.2% at end-2016) but asset quality should be viewed in conjunction with the bank's high sensitivity to event risk from large business concentrations by obligor, industry and geography. Particularly, a default by more than one major client could put significant pressure on the bank's creditworthiness.

Profitability is satisfactory but can vary over the economic cycle. Recent earnings performance is driven by growing revenue due to increased business volumes despite falling commodity prices and global trade volumes, with the bank's 2016 operating profit reaching CHF68 million (up 52% year-on-year). The bank's reported 2016 net profit after tax increased 18% year-on- year to CHF28 million, after voluntary transfer of CHF34 million to reserves for general banking risks (versus CHF7 million in 2015). Low loan impairment charges and firm cost control also support earnings.

Net income strengthened 25% year-on-year in 1H17 to CHF26 million, due to a strong increase in business volumes, despite increased loan impairment charges of CHF10 million (1H16: CHF3 million), driven by an individual exposure. We expect impairments to reduce over coming quarters as they are largely related to non-core assets but given the current challenging operating environment due to weaker global trade, there is a moderate risk that impairments could increase.

Internal capital generation is modest but has been adequate to sustain gradual business growth (especially considering transfers to general banking risk reserves). Similarly to other trade finance banks, Fitch believes that capital levels are not fully commensurate with risk. BCP's capital ratios are above minimum regulatory levels (end-2016: Basel III Tier 1 ratio of 14.8% versus a regulatory minimum of 10.5%), but capital is highly sensitive to shocks given the bank's moderate size in absolute terms and concentration and operational risks.

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 (EUR and USD), it is also concentrated and short-term, but BCP's liquidity is healthy given the short-term nature of its 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 31%-owned by Yapi ve Kredi Bankasi A.S. (YKB; BBB-/Stable/bb+). In Fitch's view, the probability of YKB providing support for BCP in case of need is limited and will be most likely in conjunction with Borak SA or the Karamehmet family. While Borak SA's ability to support BCP cannot be determined reliably, we believe that YKB would have a strong ability to provide any required support given BCP's size relative to the Turkish bank.

BCP's Support Rating of '4', which according to our methodology, implies a minimum support-driven IDR of 'B' reflects our view of YKB's propensity to support BCP in case of need. It factors in BCP's limited role in the group, which is primarily in the form of exchange of information and the sharing of some common customers, and, in Fitch's opinion, manageable reputational risk for YKB if it did not support BCP in case of need.

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. A rating upgrade is possible should BCP successfully diversify its business and revenue, most likely via sustained and controlled growth in its wealth management activities, while maintaining its sound risk control framework. An upgrade would be contingent on sound financial metrics being maintained and further strengthening of its 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 often volatile markets could also result in a downgrade, although such change is not our base case given the bank's solid track record.

SUPPORT RATING
BCP's Support Rating is sensitive to 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 affirmed at '4'

Contact:

Primary Analyst
Mahin Dissanayake
Director
+44 20 3530 1618
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Krista Davies
Director
+44 20 3530 1579

Committee Chairperson
Bridget Gandy
Managing Director
+44 203 530 1095

Media Relations: Francoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

**Applicable Criteria**
Global Bank Rating Criteria (pub. 25 Nov 2016) (https://www.fitchratings.com/site/re/891051)

**Additional Disclosures**
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