FitchRatings

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

Fitch Ratings-London-11 July 2019: 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-'. A full list of ratings is detailed at the end of this commentary.

KEY RATING DRIVERS
IDRs AND VR
The IDRs and VR of BCP benefit from its established track record and demonstrated expertise in its core trade finance activities. They also reflect risk control and an ability to adapt to changes in the numerous markets in which the bank operates. The ratings further take into account Fitch's view that specialist trade finance-focused banks are more exposed to emerging markets and to operational risk than commercial and retail banking businesses. 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.

BCP's ratings are somewhat constrained by the company profile given the risks inherent in trade finance activities, 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 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.

Risks appear 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. Risk management is also underpinned by continuous upgrades to BCP's internal control environment and processes.

The business model is concentrated on trade finance but 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 are, however, subject to a robust limits framework.

BCP's impaired loans ratio can be volatile, reflecting 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 slightly to 1.6% at end-2018, but remains low compared with trade finance peers'. Impaired loans appear to be proactively and regularly monitored by management and provisioning is adequate (end-2018 coverage ratio at 86%).

Performance is satisfactory but can be variable over economic cycles, and earnings are dependent on maintaining strong business volumes, reflecting typically thin trade finance margins. Operating profit improved in 2018 to CHF49 million (2017: CHF42 million), reflecting the non-recurrence of heightened loan impairment charges in 2017. Pre-impairment profit decreased in 2018 from record 2017 levels, partly reflecting the impact of geopolitical uncertainty on international trade flows, which put pressure on fees. Revenue fluctuations are partly mitigated by firm cost control and cost efficiency compares well with trade finance-focussed peers'.

Similarly to other trade finance banks, capitalisation is highly sensitive to shocks given the bank's concentration and operational risks, but we view BCP's capital ratios as more commensurate with risk than at its peers. BCP's common equity Tier 1 (CET1) ratio of 14.8% at end-2018 was in line with trade finance peers' and above regulatory minimum requirements. Fitch's assessment of capitalisation is also supported by our expectation that 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 de-leverage its balance sheet if needed. BCP reported a healthy Basel III leverage ratio of 10.4% at end-2018.

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 Yapi ve Kredi Bankasi A.S. (YKB; BB-/Negative/b+) 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, reflecting YKB's weak credit profile compared with BCP's as well as 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, resulting in limited upside for the ratings. However, maintaining sound asset quality and strengthening of BCP's earnings and core capital base could be moderately positive for the bank.

The ratings could be downgraded if the bank's capital ratios weaken, or 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 both YKB's ability and, especially, propensity to support BCP.
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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 '5'

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Additional information is available on www.fitchratings.com
Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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