

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



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

Fitch Ratings-London-02 December 2016: 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 VIABILITY RATING

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 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 a 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 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 1.9% at end-9M16) 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.

Performance is satisfactory but can vary over the economic cycle. Despite falling commodity prices and global trade volumes, profitability increased in 2015 when BCP benefited from healthy foreign exchange trading gains (partly proprietary trading but mainly from specific customer transactions), stable net interest income and improving fees and commission generation. Low loan impairment charges and firm cost control also support earnings.

Net income strengthened 27.6% yoy in 9M16, due to a strong increase in business volumes and low impairment charges. 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 these trends will reverse.

Internal capital generation is modest but has been adequate to sustain gradual business growth. 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-2015: Basel III Tier 1 ratio of 15.4% 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 (euro 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/Negative/bbb-). 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 VIABILITY RATING

The bank's VR and IDRs are high relative to other Fitch-rated trade finance banks, and somewhat constrained by the bank's business model. An upgrade to the rating is possible should BCP successfully diversify its business and revenues, 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:

Banque de Commerce et de Placements
 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: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@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

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditedesk/press_releases/content/ridf_frame.cfm?pr_id=1015749&cf=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiaWVWFVNMjUxWEtOSFZLMUpaSENGM1FJQ1Y2RUdRV0YFMjJUTkdLWSIsImV4cCI6MTQ0MTI3NzQ1NiwiXNlcklkjxODk0NzQ5fQ.fGE3MNUHWK5NZM57S0t2KUirPq5J_BdWgGKYNNWdVm4)

Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1015749)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings) (<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.