

FITCH AFFIRMS BANQUE DE COMMERCE ET DE PLACEMENTS AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-London-13 April 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 strong track record of executing on business growth focused on trade finance and ancillary niches. The ratings benefit from BCP's demonstrated expertise in structuring trade finance transactions while controlling risk and adapting to challenges in the economic environments where it operates as and when they arise.

Fitch's assessment of the operating environment assessment for BCP factors in the bank's domicile in Switzerland and regulation by the FINMA, good access to Swiss clients and large volumes of liquid assets in highly rated countries but also its significant business volumes in emerging markets.

BCP's trade financing is primarily short-term, self-liquidating and benefits from a range of security documentation. BCP, nonetheless, remains 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 it operates in. These risks are managed through bespoke structuring of commodity finance transactions, internal limits and maintaining sound knowledge of the bank's key markets and client base.

BCP carries out proprietary foreign exchange trading, which adds diversity to earnings but which Fitch believes could result in earnings volatility, although it is subject to a robust limits framework.

Fitch views trade finance as more exposed to global economic cycles and to operational risk than other commercial banking and retail banking businesses. Therefore, BCP's ratings are constrained by the company profile, especially taking into account the bank's fairly small 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 in its ancillary wealth management operations as well as treasury and trading activity.

BCP has low levels of impaired loans (impaired loans-to-gross customer loans of 2.1% at end-2015) 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.

Operating return on equity is moderate (2015: 11.7%) but stable. Despite falling commodity prices and global trade volumes, profitability increased in 2015 when BCP benefited from healthy foreign exchange trading gains (partly proprietary trading), stable net interest income and improving fees and commission generation. . Low loan impairment charges and goodcost control also support earnings.

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 small 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, some degree of 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 trade finance banks, and given the company profile, upside potential is limited. They could be upgraded if business and revenues become more diversified, while maintaining sound financial metrics, specifically in asset quality and capitalisation, and if profitability continues to improve.

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.

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'

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501

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