MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a Caa2 long-term deposit ratings to Banque Commerciale Du Congo S.A., with stable outlook

05 Sep 2019

London, 05 September 2019 -- Moody's Investors Service ("Moody's") has assigned the following ratings to Banque Commerciale Du Congo S.A. (BCDC): Caa2/Not Prime long- and short-term local- and foreign-currency deposit ratings, caa2 baseline credit assessment (BCA) and a caa2 adjusted BCA. The outlook is stable for the entity as well as for the long-term deposit ratings. Furthermore, Moody's has assigned long- and short-term Counterparty Risk Ratings of Caa1/Not Prime to BCDC, as well as long- and short-term Counterparty Risk (CR) Assessments of Caa1(cr)/Not Prime(cr).

BCDC's caa2 BCA reflects the bank's strong and established corporate banking franchise driving solid profitability, combined with its sound deposit-based funding and high liquid resources. The caa2 BCA also captures the bank's strong management. These positive considerations, however, remain tempered by the very challenging operating environment in the Democratic Republic of the Congo (DRC, Caa1 stable) which significantly constrains BCDC's credit profile, combined with the bank's high problem loans and concentrated loan book, as well as its modest capitalisation.

BCDC, established in 1909, is a DRC-based bank with reported total assets of $861 million and a market share of 13% in terms of total DRC assets as of 31 December 2018.

A list of assigned ratings is provided at the end of this press release.

RATINGS RATIONALE

STANDALONE BCA

STRONG AND ESTABLISHED CORPORATE BANKING FRANCHISE DRIVES SOLID PROFITABILITY

Moody's expects BCDC's profitability to remain solid, as its healthy margins and high fee income outweigh the bank's low efficiency and its cost of risk. The profitability will modestly improve, driven by higher credit growth (the bank targets a 15% growth rate) and lower cost of risk amid gradually recovering economic activity. The bank's net income to tangible banking assets ratio stood at 1.5% in 2018 (1.3% in 2017).

The bank's net interest margins were healthy at 4.3% in 2018 (4.2% in 2017), with gross yields at 5.4% and funding cost at 1.3%. BCDC benefits from high non-interest income revenue, which contributed to a large 64.8% of the bank's total operating income. BCDC's cost-to-income ratio remained high at 72.8% in 2018 (73.5% in 2017), in line with the 78% system average. Moody's expects the bank's cost of risk, computed as loan loss provisions divided by gross loans, to average 1.5% through the cycle (0.9% in 2018 and 1.5% in 2017).

SOUND DEPOSIT-BASED FUNDING

Moody's expects BCDC to remain primarily deposit funded, with customer deposits representing 77.8% of assets as of December 2018. The solid deposit base reflects BCDC's strong and established corporate franchise.

BCDC has a low market funding reliance, a credit positive. At end-2018, BCDC's market funds to tangible banking assets stood at a low 4.5%. However, similar to other banks in the DRC, BCDC's funding will remain vulnerable to tail risk despite its deposit-based nature.

HIGH LIQUID RESOURCES

Moody's expects BCDC to maintain high liquid resources. BCDC's high liquidity primarily reflects limited lending opportunities in the country given the scarcity of creditworthy private sector borrowers.

As of December 2018, the bank's liquid banking assets-to-tangible banking assets ratio was 49.6%, compared to 51.8% as of December 2017. The bank's low net loans-to-deposit ratio, at 55.4% as of December 2018, also reflected the liquid nature of the its balance sheet.

DRC'S VERY CHALLENGING OPERATING ENVIRONMENT SIGNIFICANTLY CONSTRAINS BCDC'S CREDIT PROFILE

Banks in the DRC are constrained by operating in an environment of low economic strength, very low institutional strength and high susceptibility to event risk.

Moody's assessment of the DRC's operating environment also reflects very difficult credit conditions as a result of high credit concentration, rapid credit growth and dollar-denominated lending. Additionally, funding conditions for banks are vulnerable to fragile depositor confidence, extensive use of the US dollar and asset/liability mismatches.

For BCDC, which has the entirety of its operations in the DRC, we use a "Very Weak-" Macro Profile.

HIGH PROBLEM LOANS AND CONCENTRATED LOAN BOOK CONSTRAIN ASSET QUALITY

BCDC's asset quality is exposed to risks, resulting from the bank's relatively high problem loans and credit concentrations. The bank's high problem loans stock primarily comprises of some large legacy delinquent exposures from the mining and general trading sectors, combined with problem loan formation that resulted from the global commodity shock in 2015-16 which led to a significant economic slowdown in 2016-17.

As of December 2018, BCDC's problem loans-to-gross loans stood at 7.5% compared to 10.2% as of December 2017. BCDC's problem loans ratio is materially lower than the estimated 16.8% local average. In addition, the bank's coverage is healthy, with loan loss reserves accounting for 105.0% of problem loans at year-end 2018.

The large proportion of interbank assets on the bank's balance sheet moderate the credit risks emanating from the bank's loan portfolio. The bank's interbank exposures accounted for 34.0% of total assets as of December 2018.

In addition, the bank's strong management also helps moderate the aforementioned asset risk.

MODEST CAPITALISATION

Moody's expects BCDC's capital buffers to modestly increase over the coming years, after materially declining in 2018. The increase in 2019-21 will reflect the planned gradual introduction of the capital conservation buffer by the local regulator. The decline in capitalisation was primarily driven by a material increase in risk weighted assets, owing to the introduction in 2018 of Basel II capital computation requirements for additional risk weights to account for market and operational risk, and the bank's rapid credit growth.

As of December 2018, the bank's tangible common equity to risk-weighted assets ratio (TCE ratio) declined significantly to a modest 10.3%, from 15.4% as of December 2017.

LONG-TERM RATINGS

LOW LIKELIHOOD OF RECEIVING GOVERNMENT SUPPORT IN CASE OF NEED

BCDC's Caa2 deposit rating does not incorporate any government support uplift from the bank's caa2 BCA. This reflects Moody's assessment of a low probability of government support in case of need, given the DRC government's limited capacity as well as limited track record of supporting banks in past times of stress.

COUNTERPARTY RISK RATINGS (CRRS)

CRRs are opinions of the ability of entities to honor the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in the event of a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

The local and foreign currency CRRs of BCDC are positioned at Caa1/Not Prime.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment of BCDC is positioned at Caa1(cr)/Not Prime(cr).

The CR Assessment is typically one notch higher than the deposit rating, reflecting Moody's view that authorities are likely to honor the operating obligations the CR Assessment refers to in order to preserve a bank's critical functions and reduce potential for contagion.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upwards pressure on the bank's ratings could develop through (a) an improvement in the bank's operating environment, as would be captured by an improvement in the Macro Profile, and/or (b) a material improvement in the bank's asset quality and capitalisation.

Downward pressure on the bank's ratings could develop through: (a) a material deterioration in the its funding and liquidity, and/or (b) further material decline in the capitalisation.

RATINGS OUTLOOK

The stable outlook reflects Moody's view that BCDC's high liquid resources, deposit-based funding and solid profitability together balance the challenges from the DRC's operating environment, as well as from the bank's high problem loans, credit concentrations and modest capitalisation.

LIST OF ASSIGNED RATINGS

Issuer: Banque Commerciale du Congo S.A.

..Assignments:

.... Adjusted Baseline Credit Assessment, Assigned caa2

.... Baseline Credit Assessment, Assigned caa2

.... Long-term Counterparty Risk Assessment, Assigned Caa1(cr)

.... Short-term Counterparty Risk Assessment, Assigned NP(cr)

.... Long-term Counterparty Risk Rating, Assigned Caa1

.... Short-term Counterparty Risk Rating, Assigned NP

.... Long-term Bank Deposits, Assigned Caa2, Outlook Assigned Stable

.... Short-term Bank Deposits, Assigned NP

..Outlook Action:

....Outlook Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for this rating is Mik Kabeya, +971 (423) 795-90.

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