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## Research Update:

# Various Rating Actions Taken On Russian Securities Companies Owing To The Deteriorating Economic Environment

### Primary Credit Analysts:

Roman Rybalkin, CFA, Moscow (7) 495-783-4094; roman.rybalkin@standardandpoors.com

Irina Velieva, Moscow (7) 495-783-4071; irina.velieva@standardandpoors.com

Sergey Voronenko, Moscow (7) 495-783-4003; sergey.voronenko@standardandpoors.com

### Secondary Contacts:

Victor Nikolskiy, Moscow (7) 495-783-4010; victor.nikolskiy@standardandpoors.com

Boris Kopeykin, Moscow (7) 495-783-4062; boris.kopeykin@standardandpoors.com

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- On Jan. 26, 2015, Standard & Poor's lowered its foreign currency sovereign credit ratings on Russia to 'BB+/B' from 'BBB-/A-3' and its local currency sovereign credit ratings to 'BBB-/A-3' from 'BBB/A-2'. The outlook remains negative.
- In our view, economic prospects in Russia will likely be weaker than we anticipated and weak overall in the next couple of years.
- We believe the expected economic decline in Russia in 2015, along with the disrupted external and internal capital markets and weaker monetary policy transmission mechanisms, will likely increase business risks for Russian securities companies. Also, their financial profiles will likely deteriorate, owing to tighter funding and higher credit and market risks.
- We are consequently lowering our ratings on one Russian securities company and affirming the ratings on five.
- The negative outlooks on five of the securities companies reflect the increased risks we see in the Russian financial market.

MOSCOW (Standard & Poor's) March 4, 2015--Standard & Poor's Ratings Services said today that it had taken the following rating actions on six securities companies with significant exposure to Russia:

- We lowered our long- and short-term counterparty credit ratings on Renaissance Financial Holdings Ltd. to 'B-/C' from 'B/B'. The outlook remains negative.
- We affirmed our 'B-/C' and 'B/B' long- and short-term counterparty credit ratings on BCS Holding International Ltd. and subsidiary BrokerCreditService (Cyprus) Ltd. The outlooks on both entities remain negative.
- We affirmed our 'B-/C' long- and short-term counterparty credit ratings and 'ruBBB-' Russia national scale rating on REGION Investment Co. ZAO. The outlook remains negative.
- We affirmed our 'B+/B' long- and short-term counterparty credit ratings on Ronin Europe Ltd. The outlook is stable.
- We affirmed our 'BB-/B' long- and short-term counterparty credit ratings and 'ruAA-' Russia national scale rating on Investment Company Veles Capital LLC. The outlook remains negative.

In our view, economic prospects in Russia over the next couple of years are likely to remain significantly weaker than we anticipated. We expect an economic decline in Russia in 2015 and a prolonged period of slow growth, at best. Capital markets, already narrow and shallow, will likely remain inactive, with limited windows of opportunity opening only occasionally. We believe that, in this environment, the counterparty credit risk for Russian

securities companies will increase and that general financial market conditions will remain challenging, given the decoupling of money market rates from the policy corridor that started in late 2014. Volatility in Russian capital markets, as market-based indicators illustrate, will remain elevated, in our view.

We anticipate continued tight liquidity for Russian financial institutions through 2015. Although the Central Bank of Russia has implemented measures to restore market confidence, including announcing support for the central counterparty of the Moscow exchange, we believe that banks will be less willing to provide funding to securities companies, because of both capital constraints and lower availability of liquidity in the market. A liquidity squeeze will likely keep trading volumes subdued, putting pressure on the business positions of most securities companies.

As a result of these heightened risks, we have revised our anchor--the starting point for assigning a rating to a securities company with significant exposure to Russia--to 'b' from 'b+'.

The rationales for our rating actions on Russian securities companies follow, with our outlooks on each firm.

## **Renaissance Financial Holdings Ltd.**

The downgrade reflects Russia's deteriorating operating environment and the risks related to the potential negative revaluation of Renaissance Financial Holdings Ltd. (RFHL)'s noncore assets. We expect that RFHL's management will continue to improve bottom-line results from core business activities, although legacy assets from the previous owner--especially the direct investments in Ukrainian agricultural business (US\$223 million as of June 30, 2014) and land in Kenya (US\$45.9 million)--will likely affect the company's overall financial performance.

RFHL is the nonoperating holding company of a group of geographically diverse, fully owned operating entities, some of which are not regulated, or are subject to what we view as "loose" regulations. We rate RFHL at the level of our group credit profile assessment because we believe that there are no material restrictions preventing the operating entities from upstreaming cash to RFHL.

The outlook remains negative because we still see substantial downside risks for RFHL, related to challenging economic conditions in Russia. We could lower the rating further if we believe that the company's liquidity position has worsened, or if support from ONEXIM Group, RFHL's ultimate parent, has decreased.

## **BCS Holding International Ltd.**

### **BrokerCreditService (Cyprus) Ltd.**

The affirmation largely reflects BCS Group's (which includes BCS Holding and BCS Cyprus) recent shift of its activities to foreign markets, namely the U.K., from Russia.

In particular, we anticipate that approximately one-third of BCS Group's operating income in 2015 will come from the international-to-international segment of its global institutional brokerage activity, as the group expands its presence on the London Stock Exchange. Consequently, we have kept our anchor for the group at 'b+'.

The negative outlooks reflect the potential impact of increased risks we see in the Russian financial market on BCS Holding and BCS Cyprus. We could lower the ratings if we see that the group's international operations do not pick up as we currently expect.

## **REGION Investment Co. ZAO**

The affirmation largely reflects the recent improvement in REGION's funding structure.

We view REGION as well prepared for the deterioration in Russia's economic and financial conditions. In particular, the company deleveraged in the last quarter of 2014, limiting losses from the interest-rate shock in mid-December 2014 and supporting our risk-adjusted capital ratio for the firm at above 3% for 2014. REGION has also diversified its funding base, thanks to issues of Russian ruble-denominated notes in December 2014 and January 2015. Although these issues have a put option in 12 months, which is typical for the Russian bond market, they are already included in the Central Bank of Russia's Lombard list, meaning they can be used by investors as collateral for repurchase transactions with the central bank. This gives REGION an edge over its direct competitors and adds to the stability of its funding base.

The outlook remains negative because we still see substantial downside risks related to the challenging economic conditions in Russia, and in particular, to increased volatility of the domestic financial markets.

## **Ronin Europe Ltd.**

The affirmation balances the increasing challenges the company may face because of Russia's difficult operating environment with what we view as ample liquidity and a very strong capital cushion to absorb potential credit and

market losses.

Our risk-adjusted capital ratio for Ronin stood at a very high 77% at midyear 2014. At year-end 2014, Ronin's adjusted total equity was larger than its entire securities investments, a characteristic which, we expect, will remain unchanged over the next few years. Moreover, we expect the company's conservative dividend policy and fairly good, albeit volatile, internal capital generation will support capitalization over the next few years.

We view the company's risk profile as mostly in line with those of peers within a similar risk category. We therefore no longer apply our one-notch negative comparable ratings adjustment to Ronin.

The stable outlook incorporates the increasing challenges the company may face as a result of Russia's tough operating environment, given that both Ronin and its parent, Ronin Partners B.V., have exposure to the highly volatile Russian financial market. At the same time, we anticipate that Ronin will maintain its conservative financial policies, very strong capitalization, and ample liquidity.

## **Investment Company Veles Capital LLC**

The affirmation reflects our opinion that Veles is likely to remain resilient to the deteriorating economic conditions in Russia, due to its conservative financial and risk management policies. We have consequently revised our assessment of Veles' risk position to "strong" from "adequate."

Veles has continued to reduce its inventory position, limiting the variety and credit quality of instruments in its portfolio to a selected number of issuers. Its market risk management is robust, with value-at-risk metrics underestimating daily losses only once in fourth-quarter 2014, despite heightened volatility. Although Veles opened a position in Eurobonds of Russian state-owned blue chip companies in late 2014, the ensuing increase in currency risk has not materially affected Veles' overall risk profile.

The negative outlook reflects the increased downside risks that Veles faces, related to challenging economic conditions in Russia, and in particular, to the increased volatility in the Russian financial market.

## **Ratings Score Snapshots**

### **Renaissance Financial Holdings Ltd.**

|                       | To            | From          |
|-----------------------|---------------|---------------|
| Anchor:               | b             | b+            |
| Business Position:    | Adequate (0)  | Adequate (0)  |
| Capital and Earnings: | Moderate(0)   | Moderate(0)   |
| Risk Position:        | Moderate (-1) | Moderate (-1) |

|                                |               |               |
|--------------------------------|---------------|---------------|
| Funding:                       | Moderate (-1) | Moderate (-1) |
| Liquidity:                     | Adequate-High | Adequate-High |
| Comparable Ratings Adjustment: | +1            | +1            |
| Support:                       | 0             | 0             |
| GRE Support:                   | 0             | 0             |
| Group Support:                 | 0             | 0             |
| Sovereign Support:             | 0             | 0             |
| Holding Co. Notching:          | 0             | 0             |
| Outlook:                       | Negative      | Negative      |

**BCS Holding International Ltd.**

|                                | To            | From          |
|--------------------------------|---------------|---------------|
| Anchor:                        | b+            | b+            |
| Business Position:             | Strong (+1)   | Strong (+1)   |
| Capital and Earnings:          | Adequate (0)  | Adequate (0)  |
| Risk Position:                 | Adequate (0)  | Adequate (0)  |
| Funding:                       | Moderate (-2) | Moderate (-2) |
| Liquidity:                     | Adequate-Low  | Adequate-Low  |
| Comparable Ratings Adjustment: | 0             | 0             |
| Support:                       | 0             | 0             |
| GRE Support:                   | 0             | 0             |
| Group Support:                 | 0             | 0             |
| Sovereign Support:             | 0             | 0             |
| Holding Co. Notching:          | -1            | -1            |
| Outlook:                       | Negative      | Negative      |

**REGION Investment Co. ZAO**

|                                | To            | From          |
|--------------------------------|---------------|---------------|
| Anchor:                        | b             | b+            |
| Business Position:             | Strong (+1)   | Strong (+1)   |
| Capital and Earnings:          | Weak (-1)     | Weak (-1)     |
| Risk Position:                 | Adequate (0)  | Adequate (0)  |
| Funding:                       | Adequate (-1) | Moderate (-2) |
| Liquidity:                     | Adequate-Low  | Adequate-Low  |
| Comparable Ratings Adjustment: | 0             | 0             |
| Support:                       | 0             | 0             |
| GRE Support:                   | 0             | 0             |
| Group Support:                 | 0             | 0             |
| Sovereign Support:             | 0             | 0             |
| Holding Co. Notching:          | 0             | 0             |
| Outlook:                       | Negative      | Negative      |

**Ronin Europe Ltd.**

|                       | To             | From           |
|-----------------------|----------------|----------------|
| Anchor:               | b              | b+             |
| Business Position:    | Weak (-2)      | Weak (-2)      |
| Capital and Earnings: | Very Strong(2) | Very Strong(2) |

|                                |              |              |
|--------------------------------|--------------|--------------|
| Risk Position:                 | Adequate (0) | Adequate (0) |
| Funding:                       | Strong (1)   | Strong (1)   |
| Liquidity:                     | Strong       | Strong       |
| Comparable Ratings Adjustment: | 0            | -1           |
| Support:                       | 0            | 0            |
| GRE Support:                   | 0            | 0            |
| Group Support:                 | 0            | 0            |
| Sovereign Support:             | 0            | 0            |
| Holding Co. Notching:          | 0            | 0            |
| Outlook:                       | Stable       | Stable       |

### **Investment Company Veles Capital LLC**

|                                | To             | From           |
|--------------------------------|----------------|----------------|
| Anchor:                        | b              | b+             |
| Business Position:             | Moderate (-1)  | Moderate (-1)  |
| Capital and Earnings:          | Very Strong(2) | Very Strong(2) |
| Risk Position:                 | Strong (+1)    | Adequate (0)   |
| Funding:                       | Strong (1)     | Strong (1)     |
| Liquidity:                     | Strong         | Strong         |
| Comparable Ratings Adjustment: | -1             | -1             |
| Support:                       | 0              | 0              |
| GRE Support:                   | 0              | 0              |
| Group Support:                 | 0              | 0              |
| Sovereign Support:             | 0              | 0              |
| Holding Co. Notching:          | 0              | 0              |
| Outlook:                       | Negative       | Negative       |

## **Related Criteria And Research**

- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

## Ratings List

### Downgraded

|   | To            | From         |
|---|---------------|--------------|
| Renaissance Financial Holdings Ltd.<br>Counterparty Credit Rating | B-/Negative/C | B/Negative/B |
| Renaissance Securities Trading Ltd.<br>Senior Unsecured(1)        | B-            | B            |

### Ratings Affirmed

BCS Holding International Ltd.  
Counterparty Credit Rating B-/Negative/C

BrokerCreditService (Cyprus) Ltd.  
Counterparty Credit Rating B/Negative/B

REGION Investment Co. ZAO  
Counterparty Credit Rating B-/Negative/C  
Russia national scale rating ruBBB-

Region Capital LLC  
Senior Unsecured(2) B-  
Russia National Scale(2) ruBBB-

Ronin Europe Ltd.  
Counterparty Credit Rating B+/Stable/B

Investment Company Veles Capital LLC  
Counterparty Credit Rating BB-/Negative/B  
Russia National Scale ruAA-

(1) Guaranteed by Renaissance Financial Holding LLC.

(2) Guaranteed by REGION Investment Co. ZAO.

### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers:

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