

Research

Research Update:

BrokerCreditService (Cyprus) And BCS Structured Products Upgraded To 'B+' On Improved Group Funding; Outlook Stable

Primary Credit Analyst:

Roman Rybalkin, CFA, Moscow (7) 495-783-40-94; roman.rybalkin@spglobal.com

Secondary Contact:

Victor Nikolskiy, Moscow (7) 495-783-40-10; victor.nikolskiy@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

Research Update:

BrokerCreditService (Cyprus) And BCS Structured Products Upgraded To 'B+' On Improved Group Funding; Outlook Stable

Overview

- We believe the funding structure of BrokerCreditService (BCS) group has improved, owing to reduced reliance on unstable funding sources, as shown by stronger stable funding ratios.
- We consequently now assess the group's funding profile as adequate rather than moderate and the group credit profile at 'b+' compared with 'b' previously.
- We are therefore raising our long-term ratings on core group entities BrokerCreditService (Cyprus) Ltd. and BrokerCreditService Structured Products PLC to 'B+' from 'B' and affirming our 'B' short-term ratings.
- We are affirming our 'B-/B' ratings on the holding company FG BCS Ltd.
- The stable outlooks reflect our view that BCS group will be able to maintain adequate funding and capitalization in the next 12-18 months.

Rating Action

On Sept. 15, 2017, S&P Global Ratings raised its long-term counterparty credit ratings on BrokerCreditService (Cyprus) Ltd. (BCS Cyprus) and BrokerCreditService Structured Products PLC (BCS Structured Products) to 'B+' from 'B' and affirmed the 'B' short-term counterparty credit ratings.

At the same time, we are affirming our 'B-/B' counterparty credit ratings on nonoperating holding company FG BCS Ltd.

The outlooks on all ratings are stable.

Rationale

The rating actions stem from our view that the BCS group's funding profile has improved, due to higher reliance on equity, deposits, and notes issued under structured products in the funding mix rather than on short-term wholesale funding. This is reflected in the stable funding ratio, which has improved to around 100% in 2016-2017 from less than 70% in 2013-2014. We consequently consider the group's funding profile to be adequate, as we do that of BCS' retail-focused peers globally. Our assessment is further supported by the group's access to collateralized facilities from the Central Bank of Russia via its subsidiary bank if needed, which somewhat differentiates it from most domestic peers. As a result, we have revised our assessment of the group

credit profile (GCP) to 'b+' from 'b'.

BCS' liquidity profile is adequate to high, in our view. The group maintains a robust buffer in the form of securities and cash, which results in liquidity coverage in excess of 150%. Although we understand that the group's development of prime brokerage activities in London will increase its need for cash buffers, we do not consider this business to be material enough to change our assessment at this stage.

We believe BCS' capital and leverage position is only moderate. The group has a relatively high risk-adjusted capital (RAC) ratio, which we forecast will stay at 8%-9% in the next 12-18 months (a slight decline from 9.0% at year-end 2016). However, we note that the group's capital is dispersed across multiple licensed and unlicensed balance sheets, and various jurisdictions. We also believe that restatements of BCS' financials complicate the assessment of capitalization. At the same time, we recognize BCS' strong and stable track record of earnings, with the three-year average ratio of core earnings to risk-weighted assets exceeding 200 basis points, a high level compared with that of BCS' global peers. Overall, we view BCS' capital, leverage, and earnings position to be adequate.

Our ratings on FG BCS are two notches lower than the 'b+' GCP to reflect the structural subordination of the nonoperating holding company's liabilities to those of the operating companies.

Outlook

The stable outlooks reflect our view that the group can maintain an adequate funding profile and capitalization in the next 12-18 months.

A negative rating action may follow if we see BCS' capitalization declining, with the RAC ratio dropping below 7% and earnings decreasing below strong levels. Increased reliance on short-term wholesale funding may also trigger a negative rating action. We may also lower the ratings on BCS Cyprus and BCS Structured Products if we no longer consider these entities to be core subsidiaries of the group.

A positive rating action is remote at this stage, in our view, since it would be contingent on improvement of economic conditions in Russia as well the regulatory framework in this market, which is core for BCS.

Ratings Score Snapshot

Issuer Credit Rating	B+/Stable/B	B/Positive/B
GCP	b+	b
Anchor	b	b

Business Position	Strong +1	Strong +1
Capital, Leverage, and Earnings	Adequate 0	Adequate 0
Risk Position	Adequate 0	Adequate 0
Funding and Liquidity	Adequate and High	Moderate and High
Peer adjustment notch	0	0
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Holding company notching	-2	-1

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; Ratings Affirmed

	To	From
BrokerCreditService (Cyprus) Ltd. BrokerCreditService Structured Products PLC Counterparty Credit Rating	B+/Stable/B	B/Positive/B

Ratings Affirmed

FG BCS Ltd Counterparty Credit Rating	B-/Stable/B	B-/Stable/B
--	-------------	-------------

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2017 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.