S&P Global
Ratings

Research

Research Update:

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

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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 Adequate-High 0	Moderate and Adequate-High -1
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

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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.