

# RatingsDirect®

---

**Research Update:**

## **BCS Holding International And BCS (Cyprus) Ltd. Outlooks Revised To Stable On Resilient Earnings; Ratings Affirmed**

**Primary Credit Analyst:**

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

**Secondary Contact:**

Irina Velieva, Moscow (7) 495-783-40-71; irina.velieva@spglobal.com

### **Table Of Contents**

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# BCS Holding International And BCS (Cyprus) Ltd. Outlooks Revised To Stable On Resilient Earnings; Ratings Affirmed

## Overview

- We believe that BCS Group, which includes BCS Holding International Ltd. (BCS) and its core subsidiary BrokerCreditService (Cyprus) Ltd. (BCS Cyprus), demonstrated robust earnings capacity amid market turbulence, owing to the substantial expansion of its franchise.
- We are consequently revising our outlooks on BCS and BCS Cyprus to stable from negative and affirming our ratings on both companies.
- The stable outlook reflects our opinion that BCS Group will be able to withstand potential deterioration of conditions in Russia in the next 12-18 months while maintaining sufficient capitalization and liquidity

## Rating Action

On May 6, 2016, S&P Global Ratings revised its outlook on Russia-based securities firm BCS Holding International Ltd. (BCS) to stable from negative and affirmed its 'B-/C' long- and short-term counterparty credit ratings on the company.

We also revised the outlook on BCS' core subsidiary BrokerCreditService (Cyprus) Ltd. (BCS Cyprus) to stable from negative and affirmed our 'B/B' ratings.

## Rationale

We believe that BCS Group, which includes BCS and BCS Cyprus, demonstrated substantial resilience to the challenging economic conditions in Russia. In particular, the group managed to demonstrate substantial improvement in profitability with returns on assets increasing to about 4% in 2015 from 1.7% on average over 2011-2014. This increase was driven by improvement of the group's franchise, both in retail and corporate segments, and by a build-up of the international franchise. In particular, we note that the group became one of the major beneficiaries of the new tax-exempt individual investment accounts introduced in 2015. We also believe that the group is benefiting from reduced competition in the international-to-Russia segment and has built up the necessary infrastructure outside Russia to diversify its earnings internationally. We note that the group's performance was supported by inflows of client funds in a high-interest-rate environment and by gains on proprietary position.

In our view, BCS Group maintained a cautious approach to risk management in the second half of 2015 that translated into an improvement in its risk-adjusted capital (RAC) ratio from about 8% at mid-2015 to an estimated 10% at year-end 2015. We believe that, going forward, the group will maintain its RAC ratio at about 10.5%-11.0% on the back of reduced market volatility and a limited appetite for proprietary operations. Our view on the group's capital and earnings also reflects our opinion that the return on our risk-weighted assets will remain in the 75-100 basis point (bps) range during the next 12-18 months compared with 40-60 bps in previous years, although it is likely to remain volatile.

## Outlook

The stable outlooks on BCS and BCS Cyprus reflect our opinion that BCS Group will be able to withstand potential deterioration of operating conditions in Russia in the next 12-18 months while maintaining sufficient capitalization and liquidity.

We may take a negative rating action on BCS and BCS Cyprus if the group's capitalization deteriorates, with our adjusted capital ratio for the group declining below 7%. This may come from increased proprietary risk appetite or from an increase of risks in Russia or in other countries. A disruption of the market confidence in the group may also result in a negative rating action.

In addition, we could take a negative rating action on BCS Cyprus if we see its importance for the group diminish. However, that scenario is remote, in our view.

A positive rating action on BCS and BCS Cyprus is most likely to be contingent on improvement of the operating conditions in Russia, including introduction of a more robust and credible regulatory regime for securities firms in the country. We could, however, also raise the ratings if the major strengthening in profitability observed in 2015 is sustained and if we believe the RAC capital ratio will exceed 10% on a sustained basis.

## Ratings Score Snapshot

BCS HOLDING INTERNATIONAL LTD.

	To	From
Issuer Credit Rating	B-/Stable/C	B-/Negative/C
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	Moderate (-1) and Adequate-High	Moderate (-1) and Adequate-High
Peer Comparison Adjustment	(0)	(0)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Holding Co. Notching	(-1)	(-1)
BrokerCreditService (Cyprus) Ltd.	To	From
Issuer Credit Rating	B/Stable/B	B/Negative/B
GCP	b	b

GCP--Group credit profile.

## Related Criteria And Research

- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 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
- Commercial Paper I: Banks, March 23, 2004

## Ratings List

Outlook Action; Ratings Affirmed

	To	From
BCS Holding International Ltd.		

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

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.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](http://www.standardandpoors.com) for further information. 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 the S&P Global Ratings public website at [www.standardandpoors.com](http://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 © 2016 by 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 and other 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 acknowledgement 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 nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain 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](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.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](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.