

Research Update:

Russian Broker FG BCS And Subsidiaries Ratings Affirmed; Outlooks Remain Positive

November 25, 2019

Overview

- FG BCS Ltd.'s profitability materially declined in 2018 and first-half 2019, mainly due to a decreasing in trading income and ongoing investments in business development, but the group remained overall profitable and continued its expansion in Russia and abroad.
- We expect that FG BCS will maintain its leading positions in Russian securities markets, and will manage risks associated with increasing complexity and rapid expansion over the next 12-18 months.
- We are therefore affirming our 'B/B' ratings on non-operating holding company FG BCS and our 'B+/B' ratings on its operating subsidiaries BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd.
- The positive outlooks reflect that we could upgrade the company over the next 12 months if its geographic diversification translates into a more balanced risk profile and less volatile performance compared with that of Russia-focused domestic peers.

PRIMARY CREDIT ANALYST

Annette Ess, CFA
Frankfurt
(49) 69-33-999-157
annette.ess
@spglobal.com

SECONDARY CONTACT

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

Rating Action

On Nov. 25, 2019, S&P Global Ratings affirmed its 'B/B' long- and short-term issuer credit ratings on Russian broker FG BCS Ltd., and its 'B+/B' long- and short-term issuer credit ratings on FG BCS's operating subsidiaries BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd. The outlook on all entities is positive.

Rationale

The affirmation reflects our expectation that FG BCS will remain a leading Russian securities firm and will manage risks associated with its increasing complexity and rapid expansion. It also reflects our expectation that its profitability is likely to recover after declining in 2018 and first-half 2019, mainly a decline in trading income and ongoing investments in business development.

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Despite increased competition from large Russian banks and securities firms, BCS has retained its leading position in Russia. It serves about 15% of domestic retail brokerage clients and is the largest operator in the equities and derivative market on the Moscow Exchange, with a 20%-25% market share throughout 2019.

We expect the company's geographic expansion of its operations and growth in niche markets, including the complex structured products market, will further increase the firm's complexity and test its ability to adequately manage principal risks. However, we believe that such diversification could ultimately lead to a more balanced profile and less volatile operating performance than that of domestic peers.

We view positively that the firm limited its market-sensitive losses through hedges, although this reduced profitability in 2018 and first-half 2019. In 2018, the company expected the introduction of new sanctions against Russian companies and consequent weakening of the Russian ruble, an increase in Russian interest rates, and a fall in Russian equities prices. As a result, to hedge the market downside, FG BCS opened long positions and acquired put options on the U.S. dollar, acquired put options on Russian equity indices, and entered into interest-rate swaps. However, because this stress scenario did not materialize, FG BCS incurred the cost of premiums paid for the hedge. However, these were offset by gains on securities and currencies trading.

We consider FG BCS' capital, leverage, and earnings to be strong, reflecting solid capital buffers. We anticipate that our risk-adjusted capital ratio is likely to decline by year-end 2019 due to lower retained earnings, but remain at 10%-15% in 2019-2020, compared with 14.8% in 2018, largely influenced by balance sheet growth and profitability. The group expect to post about RUB2 billion profit before tax in 2019.

We assess FG BCS' group credit profile (GCP) at 'b+'. Our rating on FG BCS, the nonoperating company, is one notch lower than the GCP to reflect the structural subordination of the nonoperating holding company's liabilities to those of the operating companies. We equalize our ratings on BrokerCreditService (Cyprus), BrokerCreditService Structured Products, and BCS Prime Brokerage with the GCP, because we consider them to be core operating entities of the group.

Outlook

The positive outlook on FG BCS and its operating subsidiaries BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd., reflects our expectation that we could upgrade these entities over the next 12 months if the group's geographic diversification translates into a more balanced risk profile and less volatile performance compared with that of Russia-focused domestic peers.

Upside scenario

We are likely to raise the ratings over the next 12 months if we view FG BCS as a clear outperformer among rated Russian securities companies, demonstrated by a more sustained and less volatile performance and higher capital buffers.

Downside scenario

We are likely to revise the outlook to stable if the company's continued rapid growth and further introduction of complex products is not supported by maintenance of capitalization at current or higher levels and sustainable strong earnings, and/or there are additional operational and

execution risks arising from the new organizational structure.

Ratings Score Snapshot

FG BCS Ltd.

Issuer credit rating	B/Positive/B
GCP	b+
Anchor	b
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate-High(0)
Comparable ratings analysis	0
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
HoldingCo Notching	-1
Additional Factors	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- 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

Ratings Affirmed

FG BCS Ltd

Issuer Credit Rating	B/Positive/B
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Ratings Affirmed

BCS Prime Brokerage Ltd.

**BrokerCreditService Structured
Products PLC**

BrokerCreditService (Cyprus) Ltd.

Issuer Credit Rating B+/Positive/B

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.capitaliq.com. All ratings affected by this rating action can be found on 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.

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