

Research Update:

Outlooks On FG BCS Ltd And Core Subsidiaries Revised To Positive; Ratings Affirmed

November 27, 2020

Overview

- We see increasing regulatory oversight and good growth opportunities in the retail segment in the Russian securities market.
- We expect FG BCS will take advantage of the favorable operating environment by expanding its franchise and diversifying revenue.
- We are therefore revising the outlooks on FG BCS and its rated operating subsidiaries (together BCS) to positive from stable. At the same time, we are affirming the ratings on FG BCS at 'B/B', and the ratings on its subsidiaries at 'B+/B'.
- The positive outlook on FG BCS reflects our expectation that it will likely benefit from the broader BCS group's strengthening business and financial profile.
- The positive outlook on the operating subsidiaries reflects our expectation that strengthening regulatory oversight in Russia, coupled with favorable growth prospects in the retail segment would enable BCS to achieve sustainable controlled business growth and diversify revenue without increasing its risk profile in the next 12 months.

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Rating Action

On Nov. 27, 2020 S&P Global Ratings revised the outlook on FG BCS and its rated subsidiaries to positive from stable. We affirmed our issuer credit ratings on FG BCS at 'B/B' and on its operating subsidiaries BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd. at 'B+/B'.

Rationale

The outlook revisions reflect our belief that BCS will benefit from the favorable market trends and strengthening regulatory oversight in Russia. We believe that the Central Bank of Russia's progressively stricter regulation of domestic securities firms aims to protect unqualified retail investors and strengthen liquidity and capital requirements.

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We believe the operating environment will continue to support Russian securities firms', including BCS', growth in 2021–2022. We expect continued strong growth in the number of retail investors, as well as brokerage asset volume in the next two years thanks to the record low interest rates for deposits, the newly introduced tax on deposits exceeding Russian ruble (RUB) 1 million (about \$13,000), the opening of brokerage accounts being made easier, the cancellation of brokerage commissions by some brokers, and developments in electronic trading. Registered retail brokerage clients in Russia reached about 7 million at end-October 2020, up from about 2 million two years earlier. This creates favorable growth opportunities for all market participants, whether independent brokers or banks' brokerage subsidiaries.

We note that Russian banks are rapidly converting their retail depositors into brokerage clients, but that BCS will continue to maintain an advantage given it can additionally offer proprietary trading, market-making, structured products, and other specialized products. We expect BCS will further diversify its customer base and revenue sources, thus decreasing revenue volatility and dependence on trading income. More clients mean more stable fee and commission income. At the same time, we will monitor if BCS is able to adequately control risks stemming from rapid business growth, as well as the increasing diversification and complexity of its operations.

Outlook: FG BCS

The positive outlook on non-operating holding company FG BCS over the next 12 months reflects our expectation that it will likely benefit from the broader BCS group's strengthening business and financial profile.

Upside scenario An upgrade of FG BCS in the next 12 months would depend on an upward revision of the group's stand-alone credit profile (SACP). Additionally, we would need to conclude that more prudent regulation of the Russian securities industry will not increase the potential for regulatory restrictions on the group operating companies' paid dividends to FG BCS. A positive rating action would also hinge on FG BCS maintaining an adequate liquidity profile and low debt.

Downside scenario We could revise the outlook to stable over the next 12 months if we see reduced upside potential for group's SACP, or a higher risk of regulatory restrictions on dividend payments by group operating companies to FG BCS.

Outlook: BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd.

The positive outlook on FG BCS' core operating subsidiaries reflects our expectation that strengthening regulatory oversight in Russia, coupled with favorable growth prospects in the retail segment would enable BCS to achieve sustainable controlled business growth and diversify revenue without increasing its risk profile in the next 12 months. We further anticipate that these three subsidiaries will remain central to BCS's growth strategy and would benefit from any necessary support from the parent.

Upside scenario

We would revise upward our assessment of group's SACP and consequentially upgrade these subsidiaries in the next 12 months if we see continuing decreasing risks in the Russian securities industry. For an upgrade, BCS would also have to demonstrate sustainable controlled growth and

maintain strong capital buffers and an adequate liquidity and funding profile.

Downside scenario

We could revise the outlook to stable if we see increasing risks in the Russian securities market and/or that BCS's rapid business growth is putting pressure on its risk position or capitalization. We could also revise the outlook if additional operational and execution risks arise from the new organizational structure.

In addition, we could take a negative action on any of these subsidiaries if we perceive that their importance for the group is diminishing, or we see reduced prospect of support.

Ratings Score Snapshot

FG BCS Ltd. Ratings Score Snapshot

	To	From
Issuer Credit Ratings	B/Positive/B	B/Stable/B
Group credit profile	b+	b+
Anchor	b	b
Business Position	Strong (+1)	Strong (+1)
Capital & Earnings	Strong (+1)	Strong (+1)
Risk Position	(Moderate (-1))	(Moderate (-1))
Funding and Liquidity	Average and Adequate-High (0)	Average and Adequate-High (0)
Comparable Rating Analysis	0	0
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Holding Co. Notching	(-1)	(-1)
Additional Factors	0	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

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
FG BCS Ltd		
Issuer Credit Rating	B/Positive/B	B/Stable/B
BCS Prime Brokerage Ltd.		
BrokerCreditService Structured Products PLC		
BrokerCreditService (Cyprus) Ltd.		
Issuer Credit Rating	B+/Positive/B	B+/Stable/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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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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