Various Rating Actions Taken On Five Russian Brokers On Reduced Economic Risks

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- More-positive-than-expected economic developments and a faster recovery in Russia support the operating environment for Russian brokers.
- In addition, increasing regulatory oversight and protection for unqualified investors reduce risks in the industry.
- We therefore revised upward our anchor for independent securities firms operating predominantly in Russia to 'b+' from 'b'.
- As a result, we have taken rating actions on five Russian brokers we rate.

FRANKFURT (S&P Global Ratings) Oct. 27, 2021--S&P Global Ratings today said it took various actions on Russian brokers:

- We raised our long-term issuer credit ratings (ICRs) on FG BCS to 'B+' from 'B' and on its operating subsidiaries--BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd.--to 'BB-' from 'B+';
- Raised our long-term ICR on Renaissance Financial Holding Ltd. to 'B' from 'B-';
- Affirmed our 'BB-/B' long- and short-term ICRs on Ronin Europe;
- Affirmed our 'B/B' long- and short-term ICRs on IC Freedom Finance LLC and other subsidiaries of Freedom Holding Corp; and
- Revised our outlook to negative from stable and affirmed our 'BB-/B' long-and short-term ICRs on Investment Company Veles Capital.

We believe that Russian banks and securities firms face lower economic risks reflecting in part the stronger recovery and more selective pandemic-related restrictions, with limited use of nationwide lockdowns. Our view is also supported by the structure of the Russian economy, which has a large public sector and a relatively modest exposure to sectors with a difficult postpandemic outlook such as services and tourism. These factors have supported favorable operating conditions for Russian brokers.

We believe that the Central Bank of Russia's (CBR's) progressively stricter regulation of domestic securities firms aims to protect unqualified retail investors and strengthen liquidity and capital requirements. Therefore, we believe that risks in Russian securities industry remain contained. The CBR's actions will benefit industry stability because they will restrain the risk appetite and growth ambitions of aggressive players and limit the entrance of new players. On Oct. 1, 2021, the CBR introduced a minimum capital adequacy ratio for domestic securities firms of 4%, gradually increasing it to 6% from April 1, 2022 and 8% from Oct. 1, 2022. The CBR also requires testing of unqualified investors from Oct. 1 and restricts which capital instruments they are allowed to buy.

We expect that growth in the number of mass market retail investors and assets on brokerage accounts will continue in the next two years but at reduced rates compared with 2019-2021 due to an increased key rate and restrictions on holding riskier instruments. Registered retail brokerage clients reached over 13 million (about 9% of Russia's population) as of Oct. 1, 2021. However, according to published research, about 80% of brokerage accounts were empty or had assets of less than $150. Furthermore, Russian banks are signing up new retail clients faster than independent brokers, having an advantage or cross-selling brokerage accounts to their existing customers.

Rating Actions On Individual Brokerages

FG BCS

Primary analyst: Annette Ess

We raised our long-term ICR on FG BCS to 'B+' from 'B' and that on its rated operating subsidiaries BrokerCreditService (Cyprus) Ltd., BrokerCreditService Structured Products PLC, and BCS Prime Brokerage Ltd. to 'BB-' from 'B+'. We also affirmed our 'B' short-term ICR on these entities.

We think that FG BCS and its operating subsidiaries benefit from the improving economic risk in Russia, creating favorable growth opportunities in its core customer segments of mass market retail brokerage and midcap Russian corporates. It remains the largest independent broker by number of retail clients and is progressively expanding its global markets investment banking business. In first-half 2021, FG BCS posted historically high net income, driven by strong growth in structured products, trading gains, fees, and commissions. We believe that BCS' Russian brokerage subsidiary will safely pass expected capital requirements from the CBR.

Outlook

The stable outlook on FG BCS and its core subsidiaries reflects our expectation that the company's business and financial profiles will be stable over the next 12 months in the supportive operating environment benefiting from good growth opportunities in Russian retail brokerage and introduction of minimum capital and liquidity requirement for Russian securities firms. We expect that FG BCS will continue to gain retail and institutional clients, further increase and diversify its revenue, and operate with sufficient capital and adequate liquidity and prudent risk appetite.

Downside scenario: A negative rating action could follow if FG BCS' ambitious growth targets put pressure on its capital or liquidity.

Upside scenario: A positive rating action is unlikely over the next 12 months. Beyond then, one will depend on further strengthening of aggregated risk management, demonstration of prudent risk appetite, maintenance of our risk-adjusted capital ratio sustainably above 11% and stable funding and liquidity metrics.

Renaissance Financial Holding Ltd. (RFHL)

Primary analyst: Annette Ess

We raised our long-term ICR on RFHL to 'B' from 'B-' and revised our group stand-alone credit profile (SACP) on it to 'b+' from 'b-', reflecting RFHL's strengthened capitalization and diversified revenue by geographies and customer types. We expect that RFHL will benefit from the improved operating environment in Russia, which will lead to improved earnings and lower risks. We revised our capital and earnings assessment on RFHL to strong from adequate, reflecting moderate balance-sheet growth, strengthened earnings, and reducing exposure to its shareholder Onexim. We also revised our anchor to 'bb-' from 'b+', reflecting diversified revenue base and reduced economic risk of Russia. We believe that RFHL's Russian subsidiaries will safely pass expected capital requirements from CBR.

Outlook

The stable outlook on RFHL reflects S&P Global Ratings' expectation that, over the next 12 months, the company will maintain a moderate risk appetite and capitalization and continue to further decrease its exposure to the shareholder.

Downside scenario: We could lower our ratings on RFHL in the next 12 months if risk appetite or significant pressure on the capital buffer increased materially--for example, due to increase in market risk or faster-than-expected balance-sheet growth.

Upside scenario: We are unlikely to upgrade the holding company over the next 12 months, because we usually rate nonoperating holding companies (NOHCs) two notches below the group SACP. Therefore, an upgrade to the NOHC would require us to revise the group SACP upward by more than one notch.

Ronin Europe Ltd.

Primary analyst: Annette Ess

We have revised Ronin's Group SACP to 'bb' from 'bb-' reflecting reduced economic risk in Russian securities sector. We affirmed our 'BB-/B' ICRs on Ronin, reflecting our view that the company's preliminary 'bb' group SACP is high in the Russian context, and usually associated with larger institutions with much better business diversity and scale of operations, more advanced strategy, and better corporate governance.

Outlook

The stable outlook reflects our view that both Ronin Europe and its parent, Ronin Partners B.V., will maintain conservative financial policies, very strong capitalization, and ample liquidity in the next 12 months.

Downside scenario: We could revise our assessment of the group SACP downward and lower the ratings on Ronin Europe if the group abandoned its conservative investment philosophy, substantially increased its risk appetite, and adopted more aggressive growth strategies that led to a material weakening of its capitalization and risk profile.

Upside scenario: We consider an upgrade unlikely. Diversification from the boutique business model and further diversification away from Russian risk could be a prerequisite for such an action, however.

Investment Company Veles Capital

Primary analyst: Annette Ess

We revised our outlook to negative from stable and affirmed our 'BB-/B' ICRs on Veles. The outlook revision reflects our view that Veles' regulatory capital adequacy ratio, which the Russian regulator introduced as of Oct. 1, 2021, could be around 5% compared with the 4% regulatory minimum. We view this as a barely sufficient cushion in view of volatile capital markets and the company's growth plans. We believe that to improve its regulatory capital and comply with gradual increase in minimum capital adequacy ratio to 6% as of April 1, 2022, and 8% as of Oct. 1, 2022, Veles might be forced to scale back some operations. Unlike other Russian brokers with numerous balance sheets across various jurisdictions, the company has materially fewer options to reallocate operations between entities to free up capital having effectively a single balance sheet. We have revised Veles' group SACP to 'bb' from 'bb-', reflecting reduced economic risk in the Russian securities sector. We affirmed our 'BB-/B' ICRs on the company to reflect our holistic view of Veles' weaker credit characteristics versus peers from the 'BB' rating category and risks regarding its capitalization.

Outlook

The negative outlook reflects our expectations that, over the next 12 months, the company could be operating with a narrow cushion above the regulatory capital adequacy ratio.

Downside scenario: We could downgrade Veles over the next 12 months if its regulatory capital adequacy ratio is less than 100 basis points above the regulatory minimum. A negative rating action could also follow if we conclude that to comply with the regulatory capital adequacy ratio, the company reorganizes its operations in such a way that will lead to material loss of customers and revenue.

Upside scenario: We could revise the outlook to stable it Veles complies with the minimum capital adequacy ratio with a sustainable cushion of more than 100 basis points above the regulatory minimum without experiencing a material loss of customers and revenue.

IC Freedom Finance LLC And Other Subsidiaries Of Freedom Holding Corp.

Primary analyst: Roman Rybalkin

We affirmed our 'B/B' ICRs on brokerage subsidiaries of Freedom Holding Corp. (IC Freedom Finance LLC, Freedom Finance JSC, Freedom Finance Europe Ltd., and Freedom Finance Global PLC) with a stable outlook. While lower economic risks in Russia are positive for the group, we consider the ratings well-placed at the 'B' level relative to regional and global peers and believe that further rating developments would depend on the group's success in bringing clients to onshore jurisdictions or lack thereof.

We believe that IC Freedom Finance LLC passes expected capital requirements from the CBR, and the group has the flexibility to transfer some capital-intensive operations to other subsidiaries if needed.

Outlook

The stable outlooks on the subsidiaries of Freedom Holding reflect our expectation that over the next 12-18 months, the group will retain its strong earnings capacity and at least moderate capitalization while continuing to onboard clients in onshore jurisdictions.

Upside scenario: A positive rating action would arise only from us taking a more positive view of the group's creditworthiness, which is unlikely in the near term. Beyond then, the transfer of clients under the umbrella of Freedom Holding and at least adequate capitalization would be prerequisites for an upgrade. The group's performance and financial standing would also need to be assessed relative to peers'.

Downside scenario: We could lower the ratings if we believe the group might fail to maintain at least moderate capitalization. This could be due to further acquisitions, buildup of a proprietary position in bonds or equities, or faster-than-expected expansion of clients' operations on the group's balance sheet. A negative rating action could also follow if the process of transferring customers to domestic jurisdictions stops or is reversed, or we see rising compliance risks from related-party transactions. As well, we could lower the ratings on either subsidiary if they become materially less important to the group strategy, or if we were less confident that they would receive group support.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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: 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

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Upgraded; Outlook Action; Ratings Affirmed		
	To	**From**
BCS Prime Brokerage Ltd.		
BrokerCreditService Structured Products PLC		
BrokerCreditService (Cyprus) Ltd.		
Issuer Credit Rating	BB-/Stable/B	B+/Positive/B
FG BCS Ltd.		
Issuer Credit Rating	B+/Stable/B	B/Positive/B
*** * * * * * * * * * * * * Freedom Holding Corp. * * * * * * * * * * * * ***		
Ratings Affirmed		
Freedom Finance Europe Ltd.		
Investment Co. Freedom Finance LLC		
Freedom Finance Global Plc		
Issuer Credit Rating	B/Stable/B	
Freedom Finance JSC		
Issuer Credit Rating	B/Stable/B	
Kazakhstan National Scale	kzBB+/--/--	
*** * * * * * * * * * * Investment Co. Veles Capital LLC * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Investment Co. Veles Capital LLC		
Issuer Credit Rating	BB-/Negative/B	BB-/Stable/B
*** * * * * * * * * * Renaissance Financial Holdings Ltd. * * * * * * * * ***		
Upgraded; Ratings Affirmed		
	To	**From**
Renaissance Financial Holdings Ltd.		
Issuer Credit Rating	B/Stable/B	B-/Stable/B
*** * * * * * * * * * * * * * Ronin Europe Ltd. * * * * * * * * * * * * * ***		
Ratings Affirmed		
Ronin Europe Ltd.		
Issuer Credit Rating	BB-/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.