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**Research Update:**

## U.K.-Based BCS Prime Brokerage Ltd. Assigned 'B+/B' Ratings; Outlook Stable

**Primary Credit Analyst:**

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

**Secondary Contact:**

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

### Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

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## Overview

- BCS Prime Brokerage Ltd. is a wholly owned subsidiary of FG BCS Ltd., one of the largest and most diversified securities firms in Russia.
- We believe that BCS Prime Brokerage plays a key role in FG BCS' strategy implementation, acting as a prime broker and providing institutional investors access to the Russian stock market.
- We are assigning our 'B+/B' long- and short-term ratings to BCS Prime Brokerage.
- The stable outlook reflects our opinion that BCS Prime Brokerage will maintain its high level of operational integration with FG BCS and continue to be a core entity for developing the group's international investment banking platform over the next 12-18 months.

## Rating Action

On Dec. 27, 2017, S&P Global Ratings assigned its 'B+/B' long- and short-term issuer credit ratings to U.K.-based BCS Prime Brokerage Ltd. (BCS UK). The outlook is stable.

## Rationale

The ratings on BCS UK reflect its core status for its parent, FG BCS Ltd. (the group), which owns 100% of BCS UK. The group's focus is on becoming a leading execution platform, providing international investors access to Russian markets and Russian investors access to global markets. Headquartered in London, BCS UK implements the group's strategic vision, providing prime brokerage services for institutional clients and professional investors who trade financial instruments in Russia and globally. BCS UK maintains close strategic and operational integration with the group.

Our assessment of BCS UK's stand-alone credit profile (SACP) is 'b+'. This is based on the 'bb' anchor, reflecting the company's geographic mix and the industry risk related to securities firms in the U.K., where the company is incorporated. The exposure mix, measured as a percentage of balance sheet exposures, is 36% in Cyprus, 15% in Russia, 23% in U.K., and the remaining 26% is spread across developed economies in Europe. The anchor for securities firms is two notches lower than for a bank with a similar geographic mix because of securities firms' lack of access to central bank funding, a tougher competitive environment, and looser regulation.

We consider the company's business position to be weak, although emerging. BCS UK has a limited size, concentrated clientele, and focus on prime brokerage services for institutional clients and professional investors. Most of the company's operations target the Russian market, which is relatively small and less liquid than global securities markets. At the same time, the company benefits from being a part of a larger and well-diversified group, as it is able to provide its clients an infrastructure to operate at the Moscow Stock Exchange. We regard BCS UK's corporate governance as satisfactory, in line with the group's.

Our assessment of BCS UK's capital, leverage, and earnings is adequate. The company's risk-adjusted capital ratio (RAC) stood at 14.1% on Sept. 30, 2017, after the parent made a substantial capital injection earlier this year (additional \$37 million Tier 1 capital). However, we believe that the RAC ratio will reduce to 8%-10% within the next 12-18 months, since the company will expand its business activities and utilize its excess capital to align its capitalization levels with the group's levels. We consider earnings to be moderate. While the company is developing rapidly, its track record of consistent earnings generation is limited. Over the past three years, the company's net income was marginally around zero. At the same time, we believe that the company's profit-generating potential is relatively good, because its revenues are commission based and have low sensitivity to market movements.

We believe that BCS UK's risk position is adequate, reflecting a developed risk management framework and oversight, which should enable the company to offset the risks associated with its planned growth over the next 12-18 months. The company has no proprietary trading operations and maintains fairly high standards of risk management policies and procedures, with good internal processes and comprehensive risk oversight. The company's risk appetite is clearly defined for each risk type and remains relatively low.

BCS UK's funding and liquidity are adequate. We believe that the company benefits from the group's ongoing support, which partly offsets relatively high funding and liquidity risks that are usually associated with prime brokerage business. The company's assets and liabilities are short term, which is characteristic for a prime brokerage business model. The gross stable funding ratio stood at 67.75% on Sept. 30, 2017, and we expect it to remain below 90% in the next 12-18 months. At the same time, the company is not fully utilizing the available limits (we expect the utilization ratio to be maintained at 25%-30%), and it performs regular stress tests in accordance with the U.K. regulator's requirements. The liquidity coverage metric is also relatively low, at 87% as of Sept. 30, 2017.

## **Outlook**

The stable outlook on BCS UK mirrors that on its parent FG BCS. We also incorporate our expectation that BCS UK will maintain its high level of operational integration with FG BCS and will remain core to the group's strategy of developing its international investment banking platform in the

next 12-18 months.

Any negative or positive rating action on BCS UK would reflect a similar action on FG BCS. However, we could lower the ratings on BCS UK if we observe a deterioration in the company's importance for the group. This, however, is not our base case.

A positive rating action is currently remote. We would not rate the company higher than the group even if BCS UK's SACP were to improve.

## Ratings Score Snapshot

Issuer Credit Rating	B+/Stable/B
SACP	b+
Anchor	bb
Business Position	Weak (-2)
Capital, Leverage and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Adequate and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

## 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
- 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

New Rating

BCS Prime Brokerage Ltd.  
Counterparty Credit Rating

B+/Stable/B

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@spglobal.com

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