

Ratings On Three Russian Brokers Affirmed Under Revised Criteria For Financial Institutions

January 27, 2022

FRANKFURT (S&P Global Ratings) Jan. 27, 2022--S&P Global Ratings today said that it has affirmed its issuer credit ratings on three Russian brokers and related entities (see list below) follow a revision to its criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021). The affirmations include:

- FG BCS LTD (B+/Stable/B) and its subsidiaries BrokerCreditService (Cyprus) Limited, BrokerCreditService Structured Products plc, and BCS Prime Brokerage Limited (BB-/Stable/B);
- Renaissance Financial Holdings Ltd. (B/Stable/B); and
- Ronin Europe Ltd. (BB-/Stable/B).

Our assessments of economic risk and industry risk in Russia also remain unchanged at '7' and '7', respectively (see "Banking Industry Country Risk Assessment: Russia," published on Nov. 17, 2021). These scores determine the BICRA and the 'b+' anchor, or starting point, for our ratings on FG BCS and Ronin Europe. The trends we see for both economic and industry risks in Russia remain stable. For Renaissance Financial Holdings (RFHL) we apply an anchor of 'bb-', reflecting its supervision on a consolidated basis by the Cypriot regulator. The trend for the industry risk of Cyprus is also stable.

S&P Global Ratings believes the omicron variant is a stark reminder that the COVID-19 pandemic is far from over. Uncertainty still surrounds its transmissibility, severity, and the effectiveness of existing vaccines against it. Early evidence points toward faster transmissibility, which has led many countries to reimpose social distancing measures and international travel restrictions. Over coming weeks, we expect additional evidence and testing will show the extent of the danger it poses to enable us to make a more informed assessment of the risks to credit. In our view, the emergence of the omicron variant shows once again that more coordinated and decisive efforts are needed to vaccinate the world's population to prevent the emergence of new, more dangerous variants.

FG BCS LTD

We affirmed the ratings on nonoperating holding company (NOHC) FG BCS and operating subsidiaries of BCS group BrokerCreditService (Cyprus) Limited, BrokerCreditService Structured Products plc, and BCS Prime Brokerage Limited. Our ratings reflect our opinion of the group as the

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Ratings On Three Russian Brokers Affirmed Under Revised Criteria For Financial Institutions

largest and one of the most diversified independent brokers in the Russian market, serving about 6% of registered domestic retail brokerage clients and with about 10% of brokerage assets of retail clients in Russia at year-end 2021. We believe BCS group will benefit from the good growth prospects in the retail brokerage segment that we expect to continue over 2022-2023, and will remain the largest operator in the equities and derivative market on the Moscow Exchange. We also factor in the group's notable international presence in the U.K., U.S., and Cyprus, and its expanding global investment banking business as a key execution platform for international players in Russia-based markets.

We forecast that BCS group's capital and leverage will remain strong in 2021-2022 as measured by our risk-adjusted capital ratio (RAC). We estimate BCS' RAC will remain sustainably above 10%, despite fast balance-sheet growth. BCS' moderate risk position reflects its high growth appetite and complex operations, demonstrated by the sale of complex structured products to retail investors. The group has diverse and stable funding sources, and its liquid assets historically account for about two-thirds of the balance sheet.

We assess BCS' group stand-alone credit profile (SACP) at 'bb-'. Our rating on FG BCS, the NOHC, is one notch lower than the group SACP 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) Limited, BrokerCreditService Structured Products plc, and BCS Prime Brokerage Limited with the group SACP, because we consider them to be core operating entities of the group.

Outlook

The stable outlook on FG BCS and its core subsidiaries reflects our expectation that the group's business and financial profiles will remain stable over the next 12 months despite some uncertainty in the operating environment in Russia. The business will be supported by good growth opportunities in Russian retail brokerage and recently introduced minimum capital and liquidity requirements for Russian securities firms. We expect that BCS group will continue to gain new retail and institutional clients and diversify its revenues, while at the same time operate with sufficient capital and adequate liquidity and a prudent risk appetite.

Downside scenario: We could consider a negative rating action if risks in the Russian securities market increase and/or FG BCS' ambitious growth targets pressure its capital and/or liquidity.

Upside scenario: A positive rating action is unlikely over the next 12 months. Beyond 12 months, it would depend on the further strengthening of the group's aggregated risk management and the demonstration of a prudent risk appetite. We would also need to see the group maintain our RAC ratio sustainably above 11% and continue to post stable funding and liquidity metrics.

Ratings Score Snapshot

Issuer credit rating:

- FG BCS LTD: B+/Stable/B
- BrokerCreditService (Cyprus) Limited, BrokerCreditService Structured Products plc, and BCS Prime Brokerage Limited: BB-/Stable/B

Group stand-alone credit profile: bb- Anchor: b+

- Business position: Strong (+1)

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- Capital and earnings: Strong (+1)
- Risk position: Moderate (-1)
- Funding and liquidity: Adequate and adequate (0)
- Comparable ratings analysis: 0

Support: 0

FG BCS Holding Company Notching: -1

Renaissance Financial Holdings

We affirmed our ratings on RFHL. RFHL is primarily an institutional broker, with strong positions in equities and derivatives in Russia's capital markets as well as in some African markets, which supports our assessment of its business position.

We expect its capitalization, as measured by our risk-adjusted capital ratio (RAC), will remain above 10% in 2021-2022, reflecting planned moderate balance-sheet growth and adequate revenue-generation capacity. RFHL's still-high exposure to its shareholder Onexim continues to weigh on its risk position. As of Sept. 30, 2021, loans to the shareholder, net of provisions, progressively reduced to slightly less than its total adjusted capital. We expect that exposure to the shareholder will continue to gradually decline in the next three years. We see RFHL's funding as negative for the rating given its lack of sources to finance long-term assets. However, prudent liquidity management and available liquidity support from its owner Onexim balance the risks of predominantly short-term funding.

Our 'B' rating on RFHL, the NOHC, is one notch lower than the group SACP of 'b+'. This reflects the structural subordination of the NOHC's liabilities to those of the operating companies.

Outlook

The stable outlook on RFHL reflects our expectation that, over the next 12 months, the company will maintain a moderate risk appetite and strong 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 its risk appetite or pressure on the capital buffer increased materially--for example, due to increased 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 NOHCs that are in prudentially regulated jurisdictions 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.

Ratings Score Snapshot

Issuer credit rating: B/Stable/B

Group stand-alone credit profile: b+

Anchor: bb-

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- Business position: Adequate (0)
- Capital and earnings: Strong (+1)
- Risk position: Moderate (-1)
- Funding and liquidity: Below Adequate and adequate (-1)
- Comparable ratings analysis: 0

Support: 0

Holding Company Notching: -1

Ronin Europe

We affirmed our ratings on Ronin Europe. The ratings reflect our assessment of the creditworthiness of the wider group and Ronin Europe's core status within the group as a main operational entity for international business and an important booking center. As a result, we equalize the ratings on Ronin Europe with the parent Ronin Partners' group SACP and we do not assign an SACP to Ronin Europe.

The ratings reflect Ronin Partners group's limited customer base, which causes high single-name and geographic concentrations and swings in profitability due to nonrecurring earnings. These factors are mitigated by the group's relationship-driven niche customer profile, lower-than-peer proprietary risk appetite, and operational efficiencies. A very strong level of capitalization, adequate risk management, and an ample liquidity buffer somewhat shelter the group from adverse market developments, in our opinion.

Our issuer credit rating on Ronin Partners is one notch lower than the group SACP, based on our view that the company's preliminary 'bb' group SACP is high by Russian standards, and usually associated with larger institutions that have much better business diversity and a larger scale of operations, a 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.

Ratings Score Snapshot

Issuer credit rating: BB-/Stable/B

Stand-alone credit profile: bb-

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- Anchor: b+
- Business position: Moderate (-1)
- Capital and earnings: Very Strong (+2)
- Risk position: Adequate (0)
- Funding and liquidity: Strong and Strong (+1)
- Comparable ratings analysis: -1

Support: 0

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021

Ratings List

Ratings Affirmed

FG BCS Ltd.

Issuer Credit Rating B+/Stable/B

Ratings On Three Russian Brokers Affirmed Under Revised Criteria For Financial Institutions

BCS Prime Brokerage Ltd.

BrokerCreditService Structured Products PLC

BrokerCreditService (Cyprus) Ltd.

Issuer Credit Rating BB-/Stable/B

Ratings Affirmed

Renaissance Financial Holdings Ltd.

Issuer Credit Rating B/Stable/B

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.

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