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Research Update:

Outlook On BrokerCreditService (Cyprus) Revised To Positive On Better Group Funding Profile; 'B/B' Ratings Affirmed

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

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Overview

- BCS Group, which includes FG BCS Ltd. and its core subsidiary BCS Cyprus, has strengthened its funding profile, in our view, by adding stable funding sources.
- We are consequently revising our outlook on BCS Cyprus to positive and affirming our ratings on BCS Cyprus and on FG BCS, the nonoperating holding company of the group.
- The positive outlook on BCS Cyprus reflects the possibility of an upgrade if we perceive the strengthening of the funding profile to be sustainable and if, at the same time, the group maintains sufficient capitalization and liquidity.

Rating Action

On Nov. 24, 2016, S&P Global Ratings revised its outlook on Cyprus-based securities firm BrokerCreditService (Cyprus) Ltd. (BCS Cyprus) to positive from stable. At the same time, we affirmed our 'B/B' long- and short-term counterparty credit ratings on BCS Cyprus.

We also affirmed our 'B-/C' ratings on FG BCS Ltd., the nonoperating holding company of the group. The outlook on this entity remains stable.

Rationale

The outlook revision reflects the improvement in the funding profile of BCS Group, with higher reliance on stable funding sources such as equity, deposits, and structured products. It also follows our reassessment of the group's gross stable funding ratio, with the new treatment capturing better the stable funding sources provided by structured products sold to customers. Following a successful capital preservation strategy in 2014 and increased profitability in 2015-2016, along with a pick-up in structured product transactions, the growth in stable funding sources outpaced growth in stable funding needs. Consequently, the gross stable funding ratio improved to 93.8% as of June 30, 2016, from the 60%-70% range observed in 2013-2014, while the share of short-term wholesale funding reduced to 30%-35% of assets, from 50%-60%. We understand that the group expects to maintain the current funding profile in 2017-2018.

We note that the group maintains adequate liquidity, with liquid securities and cash covering 70% of short-term wholesale funding and our liquidity coverage metric of sources to uses of liquidity standing at around 144% as of mid-2016. However, we note that the group's gradual expansion to prime brokerage business via its U.K. subsidiary may create additional liquidity contingent needs. We will also closely monitor the group's plans to develop its debt and equity underwriting operations, as they could increase liquidity needs in a stress scenario, in our view.

The ratings on BCS Cyprus reflect its status of a core subsidiary of the group and are therefore equalized with the group credit profile. The ratings on FG BCS Ltd. reflect its status of a nonoperational holding company and are consequently notched down from the group credit profile.

Outlook

The positive outlook on BCS Cyprus reflects that we could raise the ratings if we perceive the strengthening of the funding profile to be sustainable and if, at the same time, the group maintains sufficient liquidity and capitalization.

We may upgrade BCS Cyprus if we see that the group's reliance on stable funding is sustainable in the long run and is not a short-lived phenomenon. Another trigger for an upgrade would be a further consistent improvement in profitability supported by strong capitalization--with a risk-adjusted capital ratio above 10%. In that case, a positive rating action would also likely be contingent on an improvement of operational conditions in Russia, including introduction of a more robust and credible regulatory regime.

We may revise the outlook on BCS Cyprus to stable if the improvement in the funding profile proves to be short-lived or if we see that the group's increased risk appetite in prime brokerage weakens the liquidity risk profile. We could take a negative rating action if we saw a disruption of market confidence in the group or creation of barriers for liquidity transfer between the group operating entities. Finally, we could also take a negative rating action on BCS Cyprus if we saw its importance for the group diminishing. That scenario is remote in our view though.

The stable outlook on FG BCS Ltd. reflects our view on structural subordination of its liabilities to those of regulated entities, including those with more stringent regulation regimes such as the U.K. or licensed banking in Russia. A positive rating action is unlikely in the short term, but may take place if we see the group's creditworthiness improving dramatically. We could take a negative rating action on the holding company if we were projecting significant risks of default in the next 12 months.

Ratings Score Snapshot

FG BCS Ltd.		
	To	From
Issuer Credit Rating	B-/Stable/C	B-/Stable/C
GCP	b	b
Anchor	b	b
Business Position	Strong (+1)	Strong (+1)
Capital, Leverage, and Earnings	Adequate (0)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Moderate (-1) and Adequate-High	Moderate (-1) and Adequate-High
Peer Comparison Adjustment	(0)	(0)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Holding Co. Notching	(-1)	(-1)
BrokerCreditService (Cyprus) Ltd.		
	To	From
Issuer Credit Rating	B/Positive/B	B/Stable/B
GCP	b	b

Related Criteria

- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 09, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 01, 2012
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And

Assumptions, Dec. 06, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
BrokerCreditService (Cyprus) Ltd. Counterparty Credit Rating	B/Positive/B	B/Stable/B

Ratings Affirmed

FG BCS Ltd Counterparty Credit Rating	B-/Stable/C	B-/Stable/C
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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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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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