

## Russian Bank Aljba Alliance And Core Subsidiary S.L. Capital Services Upgraded To 'B/B'; Outlook Stable

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### View Analyst Contact Information

- Russia-based bank Aljba Alliance has demonstrated sustained resilience to
- market conditions and has maintained better-than-sector-average
- asset-quality indicators, solid capitalization, and a high liquidity
- cushion.
- We are raising our long- and short-term ratings on Aljba and its core
- subsidiary S.L. Capital Services to 'B/B' from 'B-/C'.
- The stable outlook reflects our opinion that Aljba's asset quality,
- profitability, and risk profile will remain relatively unchanged over the
- next 12 months and that the bank will continue to conservatively
- manage
- its capital and liquidity position.

MOSCOW (Standard & Poor's) June 22, 2011--Standard & Poor's Ratings Services said today that it had raised its long- and short-term counterparty credit ratings on Russia-based bank Aljba Alliance (Aljba) and its "core" Cypriot subsidiary S.L. Capital Services Ltd. (S.L. Capital) to 'B/B' from 'B-/C'. The outlook is stable.

The upgrade reflects the proven resilience of Aljba's business and financial profiles to the challenging operating environment in Russia. It performed adequately in a volatile environment, maintaining robust liquidity, healthy capitalization, and better-than-sector-average asset-quality indicators. The upgrade also reflects our increasing perception that operating conditions in Russia are gradually easing. At the same time, we expect negative rating factors, such as the bank's very narrow business base, significant concentrations in assets and liabilities, and heavy reliance on nonrecurring income, to remain.

The bank's liquidity position is a key positive rating factor. On April 1, 2011, cash and interbank placements accounted for about 60% of Aljba's total assets. Credit risk on these assets is limited because one-half of the

liquidity is placed with large European banks.

Loans overdue by one day or more accounted for about 5% of total loans at March 31, 2011. This ratio is lower than the industry average and reflects Aljba's niche business relationships. However, we believe that the bank's loan quality remains vulnerable, given its high level of single-name concentrations. Indeed, the 20 largest borrowers accounted for almost 80% of the bank's loan book on March 31, 2011.

We believe that tough competition and narrowing interest margins could constrain Aljba's plans to expand its business. Therefore, we anticipate that the bank's balance sheet will remain relatively flat. Aljba's solid level of liquidity and capitalization offers good protection against unexpected risks.

Aljba owns 100% of S.L. Capital. It is the group's booking center for proprietary securities investments and client-driven brokerage and underwriting operations. In our view, S.L. Capital is a "core" subsidiary of Aljba, given S.L. Capital's high operational and business integration with the group, and S.L. Capital's alignment with the group's strategy.

The stable outlook reflects our opinion that Aljba's business and financial profiles will remain broadly unchanged in the next 12 months. It also assumes that the bank will continue to conservatively manage its capital and liquidity position.

We view the possibility of an upgrade as relatively remote, because it would result only if the bank managed to significantly reduce its balance-sheet concentrations and improve its customer franchise, while at the same time maintaining its capital and liquidity position.

A downgrade could result if Aljba's risk appetite were to increase materially, if market conditions were to deteriorate drastically, or if the financial profile were to weaken materially.

## RELATED CRITERIA AND RESEARCH

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- **Bank Rating Analysis Methodology Profile**, March 18, 2004
- **Bank Capital Methodology And Assumptions**, Dec. 6, 2010
- **S.L. Capital Services Ltd.**, Sept. 15, 2010
- **Credit Costs Are Stabilizing For Banks In Russia, Kazakhstan, Ukraine, Belarus, Azerbaijan, Georgia, And Uzbekistan**, April 4, 2011
- **As Economic Conditions Look Up, Kazakh, Russian, And Ukrainian Banks Are Slowly Switching To Recovery Mode**, May 30, 2011

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