

S.L. Capital Services Ltd.

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S.L. Capital Services Ltd.

Major Rating Factors

Strengths:

- Almost certain financial and operational parental support.
- Adequate capitalization and share of liquid assets.
- Relationship-driven niche customer and funding profile.

Counterparty Credit Rating

B-/Stable/C

Weaknesses:

- High market and business risks related to trading operations with volatile Russian stocks.
- Fragile financial results, owing to high reliance on speculative income.
- Limited business base and high dependence on its parent.
- High concentration risk in the proprietary trading book.

Rationale

The ratings on Cyprus-based S.L. Capital Services Ltd. reflect the company's 'core' status for its ultimate parent, Russia-based commercial bank Aljba Alliance (Aljba; B-/Stable/C), as well as a high dependence on its parent for business, operational support, funding, and financial continuity. They also reflect the company's adequate level of capitalization and liquid assets, and its relationship-driven niche customer and funding profile, that somewhat shelter the company from adverse market developments. The ratings are constrained by its limited business and client base, and the inherently high volatility of its financial results, which are heavily sensitive to market shifts.

The long-term counterparty credit rating on S.L. Capital is one notch higher than its stand-alone credit profile, which we assess as 'CCC+'. The notching reflects our belief in the likelihood of extraordinary parental support. In our view, S.L. Capital has increasingly become an important part of the Aljba group, given the company's high operational and business integration, the local operation's alignment with the group's strategy, and the company's increasingly important role in the group's financial results. S.L. Capital contributed almost one-half of the group's after-tax profit in 2009.

S.L. Capital is Aljba's vehicle and booking center for proprietary securities investments and client-driven brokerage and underwriting operations. The company is wholly-owned by Aljba and had capital of \$10.5 million on August 1, 2010.

The company mainly invests in Russian equities. Single-name proprietary issuer concentrations are high, and the four largest investments represented 54% of a total portfolio of \$12 million on August 1, 2010. On the same date, the company had investments in securities of \$2.2 million (20% of adjusted total equity [ATE]), with signs of impairment.

S.L. Capital depends highly on funding and liquidity support from Aljba, representing 50% of its liabilities on August 1, 2010. This fairly confidence-resilient funding facilitates the company's liquidity and asset-liability management. Cash placements with Aljba comprised 17% of the company's \$15.5 million total assets as of August 1, 2010, about the same as the previous year.

S.L. Capital's profitability hinges on the performance of the Russian stock market, which remains volatile. Revenues are highly concentrated, owing to a limited customer base and narrow diversification of instruments, and fully dependent on market conditions and client sentiment. Due to a high negative securities revaluation and a sharp drop in brokerage commissions, S.L. Capital reported a significant loss of \$4.7 million for 2008. However, the market rose in 2009, driving profits up to \$4.2 million for 2009 and \$0.5 million for seven months of 2010 (including securities revaluations). Nevertheless, the near-term market outlook is uncertain and the company expects profitability to remain volatile.

We note that securities investments represented 115% of ATE on August 1, 2010. With the ratio of ATE to assets exceeding 60% on August 1, 2010, and a risk-adjusted capital ratio of 5.7% on Dec. 31, 2009, we believe the company has a relatively comfortable ability to absorb short-term potential market losses.

Outlook

The stable outlook on S.L. Capital mirrors that of Aljba and balances market volatility against continued group support. Moreover, we consider the current absolute amount of equity to be adequate to protect the company from potential market imbalances in the medium term.

Given the company's core status within Aljba and its strong link with, and high dependence on the parent, future changes to the ratings on S.L. Capital will largely follow changes in Aljba's credit standing and our assessment on the support that Aljba will provide to the company in case of need. A downgrade of Aljba would likely result in a downgrade of S.L. Capital; likewise, an upgrade of Aljba--a scenario that we currently consider unlikely in the near future--would likely result in an upgrade of S.L. Capital.

If the company's financial profile strengthened, specifically through a sustained good capital position, reduced volatility in earnings, and lower concentrations, we might raise our assessment of its stand-alone credit profile, but not higher than one notch below the long-term credit rating on Aljba.

We could lower the ratings on S.L. Capital if Aljba evolved in a way that weakens our assessment of the company's 'core' status within the group.

Table 1

S.L. Capital Services Ltd. Risk-Adjusted Capital Data					
(\$ 000s)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	693	0	0	28	4
Institutions	3,168	2,625	83	2,785	88
Corporate	121	125	103	110	91
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization	0	0	0	0	0
Other assets	99	88	89	148	150
Total credit risk	4,081	2,838	70	3,071	75
Market risk					
Equity in the banking book¶	9,375	100	1	73,217	781

Table 1

S.L. Capital Services Ltd. Risk-Adjusted Capital Data (cont.)					
Trading book market risk	--	18,525	--	27,788	--
Total market risk	--	18,625	--	101,004	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	15,450	--	25,811	--
(USD 000s)		Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification		36,913		129,886	100
Total adjustments to RWA		--		36,929	28
RWA after diversification		36,913		166,815	128
(USD 000s)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		10,022	27.2	9,522	7.3
Capital ratio after adjustments§		10,022	27.2	9,522	5.7

*Exposure at default. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

§Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2009, Standard & Poor's.

Table 2

S.L. Capital Services Ltd. Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2009	2008	2007	2006	2005
Net interest income/average earning assets	(12.5)	(1.9)	(1.2)	(6.4)	(9.1)
Net interest income/revenues	(21.0)	57.8	(16.9)	(12.1)	(57.7)
Fee income/revenues	13.8	(154.3)	109.4	33.7	58.1
Market-sensitive income/revenues	102.8	207.7	6.6	78.0	99.0
Personnel expense/revenues	4.6	(10.8)	3.9	3.7	7.2
Noninterest expenses/revenues	11.8	(23.0)	7.9	13.6	256.4
New loan loss provisions/revenues	0.0	0.0	0.0	(10.6)	28.5
Net operating income before loan loss provisions/loan loss provisions	N.M.	N.M.	N.M.	N.M.	(549.6)
Net operating income after loan loss provisions/revenues	88.2	123.0	92.1	97.1	(184.9)
Pretax profit/revenues	88.2	123.0	92.1	97.1	(184.9)
Tax/pretax profit	13.8	(7.6)	8.6	2.3	9.6
Core earnings/revenues	76.1	132.3	84.2	94.8	(167.1)
Core earnings/average adjusted assets	25.4	(3.9)	5.5	29.6	(10.7)
Noninterest expenses/average adjusted assets	3.9	0.7	0.5	4.2	16.4
Core earnings/average adjusted common equity	52.8	(57.1)	91.6	436.8	971.2
Pretax profit/average common equity	61.3	(53.1)	100.3	447.0	1,074.7

N.M.--Not meaningful.

Table 3

S.L. Capital Services Ltd. Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2009	2008	2007	2006	2005
Adjusted total equity/adjusted assets	70.9	31.0	4.7	23.1	(7.5)
Adjusted total equity/managed assets	70.9	31.0	4.7	23.1	(7.5)
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	N.M.	N.M.	N.M.	N.M.	(31.5)

N.M.--Not meaningful.

Table 4

S.L. Capital Services Ltd. Summary Balance Sheet					
	--Year-ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Assets					
Cash and money market instruments	3,036.2	905.4	212,806.8	5,678.0	4,643.6
Securities	10,616.0	7,917.5	5,570.0	8,248.3	8,441.7
Trading securities (marked to market)	10,614.4	7,914.5	5,570.0	8,248.3	8,441.7
Nontrading securities	1.6	3.1	0.0	0.0	0.0
Mortgage-backed securities included above	0.0	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	0.0	0.0
Gross receivables, nui	N/A	0.0	0.0	0.0	4,600.0
Loan loss reserves	0.0	0.0	0.0	0.0	0.0
Net receivables	0.0	0.0	0.0	0.0	4,600.0
Earning assets	10,616.0	7,917.5	208,844.8	8,248.3	13,041.7
Intangibles (nonservicing)	0.0	0.0	0.0	0.0	0.0
Fixed assets	75.4	97.6	114.9	80.7	118.5
Accrued receivables	351.0	9,223.5	2,643.2	2,542.0	1,121.4
All other assets	62.4	656.7	566.9	292.5	382.4
Total assets	14,140.9	18,800.7	221,701.9	16,841.6	19,307.6
Intangibles (nonservicing)	0.0	0.0	0.0	0.0	0.0
Minus insurance statutory funds	0.0	0.0	0.0	0.0	0.0
Adjusted assets	14,140.9	18,800.7	221,701.9	16,841.6	19,307.6
Liabilities					
Total deposits	0.0	0.0	0.0	3,188.5	2,167.1
Noncore deposits	0.0	0.0	0.0	0.0	0.0
Core/customer deposits	0.0	0.0	0.0	3,188.5	2,167.1
Acceptances	N/A	0.0	0.0	0.0	0.0
Repurchase agreements	N/A	N/A	203,274.7	N/A	N/A
Other borrowings	3,111.8	12,449.9	5,500.0	6,000.0	17,447.9
Other other borrowings	3,111.8	12,449.9	5,500.0	6,000.0	16,000.0
Other liabilities	1,007.3	517.5	2,432.8	3,754.4	1,142.4
Total liabilities	4,119.1	12,967.5	211,207.5	12,942.8	20,757.4
Total shareholders' equity	10,021.8	5,833.3	10,494.4	3,898.7	(1,449.8)
Mandatorily convertible securities	N/A	0.0	0.0	0.0	0.0

Table 4

S.L. Capital Services Ltd. Summary Balance Sheet (cont.)					
Limited life preferred and quasi equity	0.0	0.0	0.0	0.0	0.0
Enhanced trust preferred	N/A	0.0	0.0	0.0	0.0
Common shareholders' equity (reported)	10,021.8	5,833.3	10,494.4	3,898.7	(1,449.8)
Share capital and surplus	1,387.5	1,387.5	1,386.3	1,386.3	1,386.3
Retained profits	8,634.3	4,445.7	9,108.1	2,512.4	(2,836.1)
Total liabilities and equity	14,140.9	18,800.7	221,701.9	16,841.6	19,307.6

N/A--Not applicable.

Table 5

S.L. Capital Services Ltd. Equity Reconciliation Table					
--Year-ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Common shareholders' equity (reported)	10,021.8	5,833.3	10,494.4	3,898.7	(1,449.8)
Plus minority interest (equity)	0.0	0.0	0.0	0.0	0.0
Minus dividends (not yet distributed)	0.0	0.0	0.0	0.0	0.0
Minus revaluation reserves	0.0	0.0	0.0	0.0	0.0
Minus non servicing intangibles	0.0	0.0	0.0	0.0	0.0
Minus interest-only strips (net)	0.0	0.0	0.0	0.0	0.0
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0	0.0
Minus other adjustments	N/A	0.0	0.0	0.0	0.0
Adjusted common equity	10,021.8	5,833.3	10,494.4	3,898.7	(1,449.8)
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0	0.0
Plus general reserves	0.0	0.0	0.0	0.0	0.0
Plus unrealized gains	N/A	0.0	0.0	0.0	0.0
Minus equity in unconsolidated subsidiaries	0.0	0.0	0.0	0.0	0.0
Minus capital of insurance subsidiaries	N/A	0.0	0.0	0.0	0.0
Minus adjustment for securitized assets	0.0	0.0	0.0	0.0	0.0
Adjusted total equity	10,021.8	5,833.3	10,494.4	3,898.7	(1,449.8)

N/A--Not applicable.

Table 6

S.L. Capital Services Ltd. Profit And Loss					
--Year-ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Net interest income	(1,155.2)	(2,037.8)	(1,327.2)	(681.1)	(1,215.3)
Interest income	1.1	2,199.6	1,983.0	216.4	52.1
Interest expense	1,156.3	4,237.5	3,310.2	897.5	1,267.3
Operating noninterest income	6,661.8	(1,485.3)	9,164.8	6,320.6	3,323.3
Fees and commissions	759.6	5,434.8	8,572.9	1,898.0	1,224.8
Net brokerage commissions	491.6	4,660.0	8,753.9	1,897.2	(693.6)
Trading gains	5,659.7	(7,318.0)	519.7	4,396.9	2,087.2
Net insurance income	0.0	0.0	0.0	0.0	0.0

Table 6

S.L. Capital Services Ltd. Profit And Loss (cont.)					
Equity in earnings of unconsolidated subsidiaries	N/A	0.0	0.0	0.0	0.0
Other noninterest income	242.6	397.9	72.2	25.6	11.3
Operating revenues	5,506.7	(3,523.1)	7,837.6	5,639.4	2,108.0
Noninterest expenses	648.4	810.6	622.5	765.9	5,405.7
Personnel expenses	252.0	379.9	306.5	207.8	152.4
Other general and administrative expense	396.4	430.7	316.0	519.6	5,214.9
Net operating income before loss provisions	4,858.2	(4,333.7)	7,215.1	4,873.5	(3,297.7)
Credit loss provisions (net new)	0.0	0.0	0.0	(600.0)	600.0
Net operating income after loss provisions	4,858.2	(4,333.7)	7,215.1	5,473.5	(3,897.7)
Nonrecurring/special income	N/A	0.0	0.0	0.0	0.0
Nonrecurring/special expense	N/A	0.0	0.0	0.0	0.0
Amortization of intangibles	N/A	0.0	0.0	0.0	0.0
Impairment of intangibles	N/A	0.0	0.0	0.0	0.0
Pretax profit	4,858.2	(4,333.7)	7,215.1	5,473.5	(3,897.7)
Tax expense/credit	669.7	327.3	619.7	125.0	(375.5)
Net income (before minority interest)	4,188.6	(4,661.0)	6,595.5	5,348.6	(3,522.2)
Net income before extraordinary	4,188.6	(4,661.1)	6,595.6	5,348.6	(3,522.2)
Net income after extraordinary	4,188.6	(4,661.1)	6,595.6	5,348.6	(3,522.2)

N/A--Not applicable.

Table 7

S.L. Capital Services Ltd. Core Earnings Reconciliation Table					
--Year-ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Net income (before minority interest)	4,188.6	(4,661.0)	6,595.5	5,348.6	(3,522.2)
Minus nonrecurring/special income	0.0	0.0	0.0	0.0	0.0
Plus nonrecurring/special expense	0.0	0.0	0.0	0.0	0.0
Plus or minus tax impact of adjustments	0.0	0.0	0.0	0.0	0.0
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Plus or minus other earnings adjustments	N/A	0.0	0.0	0.0	0.0
Core earnings	4,188.6	(4,661.0)	6,595.5	5,348.6	(3,522.2)

N/A--Not applicable.

Ratings Detail (As Of September 15, 2010)***S.L. Capital Services Ltd.**

Counterparty Credit Rating B-/Stable/C

Certificate Of Deposit B-/C

Counterparty Credit Ratings History

05-Jul-2010 B-/Stable/C

22-Jul-2009 CCC+/Stable/C

Sovereign Rating

Cyprus (Republic of) A+/Watch Neg/A-1

Ratings Detail (As Of September 15, 2010)***(cont.)**

Related Entities

Aljba Alliance

Issuer Credit Rating	B-/Stable/C
Certificate Of Deposit	B-/C

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