S.L. Capital Services Limited

APPENDIX
Pillar III Disclosures as at 31 December 2009

Under Directive 144-2007-05 & 05(A) of the Cyprus Securities & Exchange Commission (CySEC) relating to the Capital Requirements of Investment Firms

April 2010

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1. Overview of the Capital Requirements Directive

The E.U. Capital Requirements Directive ("**CRD**") created a revised regulatory framework (commonly known as Basel II) governing how much capital firms are required to maintain. The main purpose of the Basel II revisions was to make the framework more risk sensitive and representative of actual risk management practices. The new framework consists of three Pillars: Pillar I sets out the minimum capital requirements firms are required to meet; Pillar II requires firms to assess their capital requirements in light of any specific risks not captured in the Pillar I calculations; and Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

In Cyprus, the CRD was implemented through the CySEC Directive for the Capital Requirements of Investment Firms of 2007, and the CySEC Directive for Large Exposures of IFs of 2007, as amended (collectively, "**the Directive**"). The Company has prepared these disclosures in accordance with the requirements of the Directive.

The Directive provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Directive also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive defines proprietary as "…if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable." Confidential information is defined as: "Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality." Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

2. Company Profile

S.L. Capital Services Limited ("SL Capital" or the "Company") is a financial company established in the Republic of Cyprus in 1996 and licensed by the Central Bank of Cyprus to provide financial services mainly to professional and experienced investors. In 2006 S.L. Capital Services Limited has obtained a license from Cyprus Securities and Exchange Commission for provision of investment and non-core services:

<table>
<tr><th>Core Services</th><th>Ancillary Services</th><th>Financial Instruments</th></tr>
<tr><td>Reception and transmission of orders in relation to one or more financial instruments</td><td rowspan="4">Safekeeping and administration of financial instruments, including custodianship and related services</td><td rowspan="4">(1) Transferable Securities
(2) Money- market instruments
(3) Units in Collective Investment Undertakings
(4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash</td></tr>
<tr><td>Execution of orders on behalf of clients</td></tr>
<tr><td>Dealing on own account</td></tr>
<tr><td>Investment advice</td></tr>
</table>

Being a part of "Aljba Alliance & Sovlink" Financial Group created in November 2002, S.L. Capital Services is actively involved in various projects related to securities trading of Sovlink LLC a well known Russian Investment Company (another subsidiary of Aljba Alliance Bank). The major tasks of incorporation of S.L. Capital Services Limited were to widen the spectrum of services offered to the existing clientele of the Group as well as to attract new customers.

For more than 10 years of operations on financial markets, S.L. Capital Services Limited participated in arrangement of projects for investments from abroad of billions of US dollars into Russian economy in particular in chemical, oil production, banking, energy production and machinery construction industries.

3. Location and Frequency of Disclosure

The Company intends to prepare its Pillar Three disclosures annually. The Disclosures will be uploaded on the website of the Company where they will be publicly available to view and download.

These disclosures are based on the position of the Company as at 31st December 2009, **before** the audit of the financial statements. As a result, they are based on the accounting records of the Company.

The Company has commissioned independent auditors (KPMG Limited, Cyprus) to verify its Pillar III Disclosures. The Company is required by the Directive to provide a copy of the auditor's verification report to CySEC within four months of each financial year-end.

4. Scope of Disclosure

The Company is making the Disclosures on an individual (solo) basis.

5. Capital Management

The primary objective of the Company's capital management is to ensure that the Company complies with its regulatory capital requirements per the Directive and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholder value.

The Company manages its capital structure and may make adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust or maintain the amount of dividend payment to shareholders or issue additional capital.

The Company did not adjust its capital structure in 2009.

6. Risk Management

a. Risk Management Framework

The Board of Directors, which consists of both executive and non-executive members, has responsibility for the overall risk governance of the Company, including aligning business strategy with risk appetite, and ensuring that all key risks are controlled via a robust risk management framework.

The Company allocates resources towards the management of its risks with the purpose of increasing the efficiency of its operations and its capital utilization, reducing financial losses, maximizing income, maintaining stability and enhancing growth.

The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals.

The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission as well as guidance and direction provided by the group. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually.

Additionally the Company has prepared and follows, based on direction from the group, methodology for setting counterparty‘s limits on securities trading. This methodology provides the firm with the tool to assess and recognize potentially not credit worthy clients and to calculate limits individually for every client based on the analysis that is being carried out.

In parallel the firm assesses its exposure with the application of both a VaR model, provided by the Group, for Equity Risk and Foreign Exchange Risk as well as sensitivity analysis for currency and equity risk (annually).

b. Risk Categorisation

i. Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the Company's functional currency. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly to minimize the risk. This is mainly achieved through natural hedging by establishing financial assets and liabilities denominated in the same foreign currency.

ii. Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses. In order to manage liquidity risk, the Company regularly monitors future expected cash flows on customers' and proprietary operations, which is part of its assets/liabilities management process.

iii. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a program of audits undertaken by the Internal Auditors of the company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

iv. Market Risk

Market risk is the risk of adverse movements in the level of interest rates, in the rate of exchange rates between currencies and the current prices of securities and other financial instruments. Consequently, these movements may affect the Company's profitability.

The Company is exposed to market risk through its trading portfolio concentrated in the Russian Federation. The Russian economy, while deemed to have achieved market stability in the beginning of 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

v. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets and the borrowings are issued at fixed interest rates. The Company is not exposed to interest rate risk but to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

vi.Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. Concentration of credit risk with respect to trade receivables exist due to the small number of customers. The Company has policies in place to ensure that contracts are made only with counterparties that have an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Trade receivables are shown net of any provision made for impairment of the receivables. Due to this factor management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

vii.Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

viii. Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management.

The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

ix. Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors.

The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

7. Capital Base and Adequacy

The own funds of the Company are comprised entirely by Tier 1 capital. As at the 31st of December 2009, the level of own funds was USD 5,8 million. **Table 1** below shows a breakdown of the own funds as at 31/12/09.

As at 31/12/2009 the Capital Adequacy Ratio was 15,93%. The Directive stipulates a minimum capital ratio of 8%.

Table 1: Capital for regulatory purposes	
Tier 1 Capital (Original Own Funds)	**('000USD)**
	2009
Share capital	1.388
Reserves (Retained earnings brought forward from 2008)	4.446
Country-specific deductions from Original and Additional Own Funds	(2)
Deductions from Own funds: Property and Equipment	(20)
Total	**5.812**

Note: Unaudited profit for 2009 of USD 4.08 millions for the year ended 31st December 2009 is not included in the Table above.

8. Credit, Market and Operational Risk Capital Requirements

Table 2 below shows the capital requirements for the three risks covered by Pillar I of the Directive.

Table 2: Capital Requirements and Risk weighted assets by type of Risk		
Type of Risk	**Risk Weighted Assets**	**Capital Requirements**
	2009	**2009**
	('000USD)	
Credit Risk	2.938	235
Market Risk	18.524	1.482
• Equity Risk	17.692	1.415
• FX Risk	544	44
• Excess on the TB	288	23
Operational Risk	15.451	1.236
Total	**36.913**	**2.953**

The exposures and calculation of capital requirements for each risk are analysed below.

a. Credit Risk

The Company has adopted the Standardised Approach for the assessment of capital requirements for credit risk, and has elected to use S&P Ratings as the preferred External Credit Assessment Institution ("ECAI") for all classes of exposure. The Company has used the credit step mapping tables provided in the Directive to map credit assessment from the ECAI to risk weightings.

No credit mitigation techniques used by the company as at the end of the year.

There were no material impaired[1] or past due exposures[2] as at the 31st of December 2009 and no provisions were made up to that date.

The exposure classes under which the assets of the company have been allocated under the standardised approach for credit risk are as shown in **Table 3** below. The exposures are presented before and after credit risk mitigation techniques have been applied.

Table 3: Analysis of Credit Risk Exposures, by Exposure Class				
Exposure Class Standardised Approach	**Average Exposure for 2009 USD ('000)**	**Original Exposure USD ('000)**	**RWA USD ('000)**	**Minimum Capital Requirement USD ('000)**
	('000USD)			
Claims or contingent claims on central governments or central banks	663	693	0	0
CIU	98	98	98	8
Claims or contingent claims on institutions	2.680	3.168	2.622	210
Claims or contingent claims on corporates	493	121	121	10
Other Items	97	97	97	7
TOTAL	**4.031**	**4.177**	**2.938**	**235**

[1] A financial asset or a group of financial assets is **impaired** if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated.

[2] A financial asset is **past due** when a counterparty has failed to make a payment when contractually due.

The table below shows the Company's credit risk exposure, broken down by risk weight:

Table 4: Exposure amount analyzed by risk weight	
Risk Weight	**Original Exposure as at 31 December 2009 USD ('000)**
0%	693
20%	682
100%	2.802
Total	**4.177**

As seen in the table in the next table, the Company spreads its credit risk exposure to a number of EU and non-EU countries, with the most significant exposures being noted in Russia.

Table 5: Geographic distribution of exposures						
Exposure Class	**Original Exposure for year ended 31/12/2009**					
	EU Countries USD ('000)		**Non-EU Countries USD ('000)**			**Total USD ('000)**
	Cyprus	**UK**	**Russia**	**Switzerland**	**Other**	
Claims or contingent claims on central governments or central banks	693	-	-	-	-	693
CIU	98	-	-	-	-	98
Claims or contingent claims on institutions	95	119	2.371	468	115	3.168
Claims or contingent claims on corporates	6	-	6	-	109	121
Other Items	97	-		-	-	97
Total	**989**	**119**	**2.377**	**468**	**224**	**4.177**

The allocation of the Company's credit risk exposures to industry sectors as at 31 December 2009 is illustrated in the following table:

Table 6: Distribution of credit risk exposures by industry sector				
Exposure Class	Original Exposure for year ended 31/12/2009			
	Central Banks USD ('000)	Financial Services USD ('000)	Other USD ('000)	Total USD ('000)
Claims or contingent claims on central governments or central banks	693	---	---	693
CIU	---	98	---	98
Claims or contingent claims on institutions	---	3.168	---	3.168
Claims or contingent claims on corporates	---	114	7	121
Other Items	---	---	97	97
Total	**693**	**3.374**	**110**	**4.177**

The residual maturity of the Company's credit risk exposures, broken down by exposure class, is provided in the table below:

Table 7: Residual Maturity per Exposure Class			
Exposure Class	Year ended 31/12/2009		
	Residual Maturity ≤ 3 months USD ('000)	Residual Maturity > 3 months USD ('000)	Total USD ('000)
Claims or contingent claims on central governments or central banks		693	693
CIU		98	98
Claims or contingent claims on institutions	2987	181	3.168
Claims or contingent claims on corporates	108	13	121
Other Items		97	97
Total	**3095**	**1082**	**4.177**

SL Capital makes use of S&P ratings as the preferred External Credit Assessment Institution ("ECAI") for all classes of exposure. Table below presents a breakdown of the credit quality steps of the Company's exposures.

Table 8: Breakdown by Credit Quality Step for each asset class			
Exposure Classes	**Credit Quality Step (S&P)**	**Risk Weight Factor**	**Original Exposure ('000USD)**
Claims or contingent claims on central governments or central banks	1	0%	693
CIU	Unrated	100%	98
Claims or contingent claims on institutions	1	20%	682
	3	100%	2.485
Claims or contingent claims on corporates	Unrated	100%	121
Other Items	Unrated	100%	97
TOTAL			**4.177**

b. Operational Risk

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a program of audits undertaken by the Internal Auditors of the company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

The Company calculates its operational risk using the Basic Indicator Approach ("BIA"), which is based on the three-year average of its net income.

Under the BIA, capital is held to safeguard the Company against operational risk at a rate of 15%. The breakdown of the components that are included in the calculation of operational risk is provided in the table below:

Table 8: Capital Requirement for Operational Risk			
Operational Risk	Year Ended 31/12/2009		
	Average Net Income of 3 years (USD ‘000)	RWA (USD ‘000)	Minimum Capital Requirement (USD ‘000)
Basic Indicator Approach (BIA)	8.243	15.451	1.236

c. *Market Risk*

As at 31 December 2009, the market risk minimum capital requirements amounted to 1.459 thousands US Dollars.

- ***Equity Risk***

The Company calculates its capital requirement with respect to equity risk using the Standardised Approach. As at 31 December 2009, the market risk minimum capital requirements due to equity risk amounted to 1.415 thousands US Dollars, as shown in the table below:

Table 9: Exposure, Risk-weighted assets and Capital Requirements for Equity Risk			
Amounts as at 31st December 2009			
	Net Positions (USD 000)	RWA (USD 000)	Minimum Capital Requirement (USD 000)
Specific Risk Charge	11.795	5.897	471
General Risk Charge	11.795	11.795	944
TOTAL		**17.692**	**1.415**

- ***Foreign Exchange Risk***

The Company calculates its capital requirement with respect to foreign exchange risk using the Standardised Approach. As at 31 December 2009, the market risk minimum capital requirements due to foreign exchange risk amounted to 44 thousand US Dollars, as shown in the table below:

Table 10: RWA and Capital Requirement for Foreign Exchange Risk		
Market FX risk	**Year ended 31/12/2009**	
	RWA (USD 000)	**Minimum Capital Requirement (USD 000)**
All assets & liabilities	544	44

- ***Large Exposures***

For the purposes of calculating large exposures, exposure means any asset or off-balance-sheet item without application of the risk weights or degrees of risk there provided for. Exposures arising from derivative instruments are calculated in accordance with the treatment for Counterparty Credit Risk (CCR) applied by each investment firm.

As at the 31st of December 2009, there was one large exposure to affiliated entity in the trading book, which amounted to 1.735 thousands US Dollars, which corresponded to 30% of own funds. The minimum capital requirement for large exposures in the trading book amounted to 23 thousands US Dollars.