OTKRITIE | CAPITAL

Otkritie Capital International Limited

Pillar 3 disclosures
for the year ended 31 December, 2016

OTKRITIE | CAPITAL

Contents

1. Overview 3
2. Business Model 3
3. Risk overview 3
4. Capital resources....4
5. Internal Capital Adequacy Assessment Process....5
6. Risk Appetite 5
7. Credit Risk 6
8. Market risk 8
9. Liquidity Risk 8
10. Operational Risk....9
11. Technology (IT risk) 9
12. Interest rate risk in non-trading book....9
13. Remuneration Policy Disclosures....10
    Information concerning the decision-making process used for determining the remuneration policy 10
    Correlation between pay and performance 10
14. Capital Requirements Directive Pillar 3 disclosure 12
15. Governance 12

OTKRITIE CAPITAL

1. Overview

The new Basel Accord (Basel 2) was implemented in the European Union (EU) through the Capital Requirements Directive (CRD) on 1 January 2007. The new framework consists of three 'pillars' which are complementary and mutually-reinforcing.

- **Pillar 1** (minimum capital requirement) of the standards sets out the minimum capital requirements covering credit, market and fixed overhead requirement risk.
- **Pillar 2** (supervisory review process) requires institutions and supervisors to take a view on whether a bank should hold additional capital against risks not covered in Pillar 1 and to take action accordingly within the Internal Capital Adequacy Assessment Process (ICAAP).
- **Pillar 3** (market discipline) disclosures provide the reader with information on an institution's capital structure, capital adequacy, risk management policies and general risk profile of an institution.

In accordance with the requirements of Title VII Chapter 2 of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ("Regulations"), the disclosures included in this website relate to the Firm and are required to be made on an annual basis at a minimum and if appropriate some disclosures will be made more frequently. Otkritie Capital International Limited ("OCIL" of "the Firm") (previously known as Otkritie Securities Limited) has an Accounting Reference Date of 31 December. These disclosures are made as at 31 December 2016.

These disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. These disclosures are not subject to audit; they do not constitute any form of audited financial statement and have been produced solely for the purposes of satisfying the Regulations. The Board of Directors ("the Board") is responsible for the Firm's system of internal control and for reviewing its effectiveness. The risk management framework set in the Firm, can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate risk.

2. Business Model

The business model of OCIL can be characterised as a broker specialising in prime services and client orders' execution for various financial instruments - fixed income securities, equities, currencies and derivatives on these assets. OCIL's income is generated by earning commissions from transactions on a brokerage basis, by earning interests on margin trading by the clients, securities financing, equities lending and borrowing, and by changes in value of financial instruments acquired as proprietary holdings.

3. Risk overview

OCIL has the following oversight committees:

- Board Risk and Compliance Committee ("BRCC")
- Board Audit Committee ("BAC")
- Risk Management & Compliance Committee ("RMCC")
- Remuneration Committee ("RemCo")

The Board has overall responsibility for OCIL's system of internal controls, the objectives of which are the safeguarding of the company's assets, the maintenance of proper accounting records and the availability of reliable financial information for use within the business and for publication; and ultimately to prevent and mitigate the risk of business failure. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement and loss, and to prevent and detect fraud and other irregularities.

The Board regularly reviews the effectiveness of OCIL's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the year. The BRCC is comprised of four Directors including two independent Non-executive Directors – Martin Graham (Chairman) and Richard Ogdon. It monitors risk factors and the efficacy of controls.

The provision of internal audit activities provides the Board with flexible resourcing and independency on the review of business practices. The BAC approves annually the audit plan, which covers various divisions and departments within OCIL.

Risk is an integral part of OCIL's business. The main risks faced by OCIL are credit risk, market risk, liquidity risk and operational risk.

The Risk Management framework within OCIL consists of several levels. The first level, or the first line of defense, is the front office personnel acting in accordance with the approved trading mandates which contain the business idea or trading strategy and certain restrictions and limitations related to the executed strategy.

The second level is the independent risk management department and the Risk Management and Compliance Committee who are comprised of senior managers on a balanced basis, as from front office as from support.

The third level is the Board executing its risk oversight function via the BRCC and the BAC, both fora consist primarily of non-executive directors.

The Risk Appetite is defined by the Board along with the strategy of the Firm. Based on this document, the management sets certain limits for various types of exposures.

The Directors in discussions with senior management determine the Firm's business strategy and risk appetite that recognises the risks that the business faces. The Directors meet on a regular basis and discuss current projections for profitability, regulatory capital management, business planning and risk management. The Directors oversee the Firm's risk profile through a framework of policies and procedures having regard to relevant laws, standards, principles and rules; with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. The Firm follows the standardised approach to both market risk and credit risk.

Risk Management's aims are to identify, quantify and assess all risks, and to set appropriate prudential limits consistent with the risk appetite of the Firm.

OCIL Risk Management actively manages the risks through real-time monitoring and daily reporting on credit, market and operational risk. The Firm's Risk Department works closely with the Front Office to ensure relevant limits are being approved and limit breaches are being monitored.

4. Capital resources

The Firm's capital resources comprise only of Tier 1 Capital (Common Equity Tier 1 Capital), namely paid-up capital and share premium account. During 2016 the Firm's capital base was $352.9M. The net audited financial result for 2016 was $30.1M.

In 2016 the management continued to execute the approved business strategy, with constant cost control and profitability assessment of the business lines. As a result the size of the Firm has increased without any meaningful change in the risk profile and within the approved risk appetite.

Due to the macroeconomic situation in 1 of the primary markets – Russia, the Firm's performance was under constant pressure. Additionally the sanctions imposed on legal and natural persons in Russia introduced certain restrictions and constraints on the Firm's business activity. Nevertheless as expected the Firm was able to generate profit, maintain high levels of liquidity resources and manage its working capital requirements. The Firm has a good client base and client retention is high.

The table below shows the Firm's regulatory capital resources as at 31 December 2016 (based on audited financials).

$000's	**Year ended 31/12/2016**
Capital instruments eligible as CET1 Capital	**383 164**
Called up share capital	346 032
Share premium account	4 501
Retained earnings	**30 225**
Other reserves	**6 014**
Other transitional arrangements to CET1 Capital	**(6 456)**
COMMON EQUITY TIER 1 CAPITAL	**383 164**
ADDITIONAL TIER 1 CAPITAL	**0**
TIER 2 CAPITAL	**0**
Total Eligible Own Funds	**383 164**

5. Internal Capital Adequacy Assessment Process

OCIL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is a system of sound, effective and complete strategies and processes, that allow institutions to assess and maintain on an ongoing basis, the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of risks to which they are or might be exposed to.

This is undertaken annually or more frequently if required and the outcome is presented in a separate ICAAP document. The ICAAP covers all material risks to determine the capital requirement to satisfy regulatory requirements.

OCIL defines capital as the resources necessary to cover all relevant risks. The ICAAP by which the Board examines the Firm's risk profile and sets a risk appetite to ensure the level of capital:

- remains sufficient to support the Firm's risk profile and outstanding commitments;
- exceeds the Firm's minimum regulatory capital requirements; and
- remains consistent with the Firm's strategic and operational goals.

6. Risk Appetite

The Board articulates the risk appetite for its activities and stipulates it in the Risk Appetite Statement ("RAS"). The Firm defines Risk Appetite as representing the amount and type of risk it is prepared to accept, tolerate or be exposed to at any point in time in the context of its business model and in the course of achieving its business objectives.

There are risk policies and procedures, risk operating manuals and risk limits in place, in order to make those risks manageable for the purpose of gaining on market uncertainties, increase the value of the Firm and implement risk-awareness into decision making process. As part of the annual ordinary business planning process, the Firm's RAS is communicated by the Firm's Board to its RMCC and senior management. The Firm incorporates measurements of earnings, capital adequacy, reputation and regulatory compliance against plan targets in its monthly management reporting packs which contain the appropriate KPIs/KRIs.

The Firm has assessed its overall risk appetite and its internal control framework taking into account its systems and controls, policies and procedures that allow us to mitigate most risks before they crystallise. The Firm has, however, provided for an additional capital buffer under Pillar 2 in order to cover any additional risks.

This assessment is based on:

- the historical track record of OCIL business over the last few years;
- the Firm deals with well-established and reliable counterparties;.
- Scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to our balance sheet;
- the Trading Book activities scope includes the facilitation of clients' orders and principal trading activities;
- the Firm has limited its client base to professional clients and eligible counterparties only classified in accordance with MiFID;
- the Firm reinforces its efforts to comply with CASS rules and maintain the protection to clients' money and clients' assets;
- the Firm mainly focuses its business activities on various financial instruments traded in Russian financial markets or derived from/ based on those; and
- the firm's risk profile should also be optimized using risk transfer and risk mitigation tools.

7. Credit Risk

OCIL defines counterparty risk as a combination of pre-settlement and settlement risk:

- Pre-settlement risk is defined as the risk that one party of a contract will fail to meet the terms of the contract and default before the contract's settlement date, prematurely ending the contract. This type of risk can lead to replacement-cost risk.
- Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk can lead to principal risk. Settlement risk is the possibility one counterparty will not pay or deliver to the other counterparty.

As a significant proportion of the Firm's transactions are conducted on the basis of "delivery versus payment", this minimizes the settlement risk exposure. This does not however eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. To guard against this, OCIL sets limits for various counterparties and monitors these limits constantly.

OCIL provides services of trading in exchange traded derivatives, margin trading, securities financing, equities lending and borrowing. Exposure values to clients through the provision of these services are determined using marked-to-market methods. In all cases where such transactions place the client or OCIL at risk, OCIL will hold adequate collateral and provisions for netting arrangements. This normally takes the form of a lien over the customer's assets giving a claim on these assets for both existing and future liabilities.

OCIL Risk Management assesses counterparties' creditworthiness and assigns to them internal credit ratings, which are mapped on external rating. Under the standardized approach for credit risk OCIL uses 3 ratings provided ECAIs – Standard & Poor's, Moody's and Fitch.

The total Firm's credit risk capital requirements are presented in the table below ($000's)

<table>
<tr><th>Exposure classes</th><th>Risk Weighted Assets for Credit Risk</th><th>Pillar 1 Requirement</th><th>Additional Capital Requirement (Pillar 2)</th><th>Internal Capital allocated for Credit Risk</th></tr>
<tr><td>TOTAL</td><td>812,968</td><td rowspan="4">65,037</td><td rowspan="4">83,899</td><td rowspan="4">149,005</td></tr>
<tr><td>Institutions</td><td>462,695</td></tr>
<tr><td>Corporates</td><td>314,087</td></tr>
<tr><td>Other</td><td>36,186</td></tr>
</table>

Additional capital requirement for credit risk under ICAAP was mainly caused by the very conservative assessment of

- concentration risk attributable to the business model and target market (e.g. derivative transactions hedging or offsetting the market risk are mostly executed at Moscow Exchange), this affects the trading book activities in various aspects – repurchase transactions, funds at MOEX CCP, funds with the broker, etc.; and
- certain investments with linear risk profile where the management agreed to allocate a capital amount equal to the amount of exposure.

Concentration risk is defined as the risk of loss of income through external changes having a disproportionate impact on overall income due to a reliance on revenue from certain sectoral, geographic areas and/or business lines.

Broking activities represent a significant proportion of total income with the majority relating to financial instruments originated in or related to Russian financial markets and consequently is an area where concentration risk exists. Brokerage income is diversified into revenue from securities lending and borrowing, client orders facilitation, proprietary trading and agency dealing commission.

Credit risk concentrations include:

- significant exposure to an individual counterparty or group of counterparties;
- credit exposures to counterparties in the same economic sector or geographical region;
- credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- indirect credit exposures arising from a bank's CRM activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

Trigger events that can exercise concentration risk are as follows:

- the Firm uses one settlement agent;
- amounts due from connected companies; or
- default of a large transaction with a counterparty.

Risk mitigation:

Currently OCIL uses the settlement services of a major world financial group entity focused on providing a wide range of such services globally. It is a regulated entity which has an excellent credit rating.

For Russian Local stock, the settlement agent is an affiliated entity with a very similar risk management approach approved at the group level.

For futures and options business there are two main settlement and clearing agents – entities belonging to 2 independent world major financial groups, both are regulated entities with an excellent credit rating.

Inter-company balances are settled promptly. Members of the Group are well capitalised and in addition have the financial support of the ultimate shareholder were further funds required.

8. Market risk

Market risk is the risk that arises from fluctuations in values of, or income from, assets and asset prices or in interest or exchange rates. Based on the Firm's strategy, market risk of the Firm is also one of the main risk factors. The Firm is exposed to market risk in several instruments – equity business, equity derivatives, fixed income securities and currencies.

In managing market risk arisen in day-to-day business activities of the firm there is an arranged enterprise risk framework incorporated into the management process. This includes various market risk limits, trading mandates, clear and transparent escalation routes, stress-testing and hedging.

The market risk capital requirement of OCIL under Pillar 1 is US$64.7M as of December 31, 2016. Based on

- the maximum capital amount allocated for principal trading activity the Firm in accordance with risk appetite,
- adjusted holding periods,
- currently approved and utilized tolerances in terms of gross and net portfolio sizes, and
- risk factor sensitivities

the management believes that the capital amount initially allocated is sufficient. It covers as Pillar1 requirements as internal capital requirements hence no additional capital is required.

As of December 31, 2016 the capital requirements were as follow

Type of asset	Original exposure amount	Pillar 1 Requirement	Additional Capital Requirement (Pillar 2)	Internal Capital allocated for Market Risk
Traded Debt Instruments	**462,813**	**37,025**	**0**	**37,025**
Equity and equity based derivative instruments	**201,835**	**16,147**	**0**	**16,147**
FX	**101,930**	**8,154**	**0**	**8,154**
Commodities	**41,897**	**3,352**	**0**	**3,352**
Total	**808,475**	**64,678**	**0**	**64,678**

9. Liquidity Risk

Liquidity risk is the risk that the Firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

A liquidity risk assessment includes a determination of the extent to which there is a mismatch between assets and liabilities which could occur as a result of the Firm's assets having been pledged, the Firm's inability to sell assets quickly, or the costs and time constraints of reducing asset positions at different levels of market liquidation.

OCIL's policy is to ensure that we maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The liquidity position is monitored on a daily basis and management information provided daily to the senior management.

Being the subject of the UK national liquidity regime the Firm evaluates its liquidity risk exposure profile under ILAA. In terms of additional capital requirements management considers $2.625M as a sufficient capital buffer based on the structure of the liquidity resources.

10. Operational Risk

OCIL defines Operational risk as the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. OCIL' manages this risk through policies, procedures and internal controls to ensure compliance with laws and regulations. The quality and timelines of risk mitigation are monitored by BRCC, RMCC and the Risk Management department. Further assurance is provided by the Group's Internal Audit and OCIL's Compliance departments.

In addition to operational risk calculated in relation to the Pillar 1 capital requirements the Firm has identified additional risk sources as described in the risk register. It defines in detail the impact and probability of each risk that the Firm has considered within the operational risk category. In addition there were several stress-tests performed. The management believes these stress tests are useful tool for assessment of these additional risks.

As a part of operation risk management a framework of Operational risk KRIs/KPIs has been created in the relevant areas based on the risk factors – Personnel, Business processes, IT and infrastructure systems, and External factors.

Several approaches to assess capital needs were employed under ICAAP there. They are:

1. Self-assessment of operational risk exposure (per each event type) by the heads of departments according to the methodology stated in the OCIL ICAAP manual;
2. Stress-testing according to the methodology of stress-testing stated by the OCIL Operational risk management policy.

Based on the two approaches we consider the resulted economic capital as fully sufficient to cover operational risk. As this amount is less than regulatory capital required we consider the latter to be sufficient and even redundant to offset operational risk losses. So, additional capital under Pillar II is not required.

11. Technology (IT risk)

Management decided to consider technology risk separately. In its day-to-day business the Firm heavily relies upon the stable infrastructure, especially IT technologies. Therefore management has incorporated various mitigations around different types of risk. Management considers this type of risk may consist of:

- IT system failure (due to various reasons; and
- Disintegration of a number of systems.

However the second type results ultimately in the failure of the particular IT system to perform its function. Therefore IT department has created the list of critical systems, required time for functionality restoration and made cross-references between the systems in order to assess the integrity risk. Addressing this type of risk also forms one of the basic layers in the Business Contingency Policy, Disaster Recovery and Resolution Plan and procedures and global Recovery and Resolution Plan

The Firm estimates the additional capital requirement to address an IT failure event as $905,000.

12. Interest rate risk in non-trading book

The Firm's principal activity is the trading book, hence there is no non-trading book activity and no capital was provided for this type of risk.

13. Remuneration Policy Disclosures

Information concerning the decision-making process used for determining the remuneration policy

The Board is responsible for all decisions relating to remuneration. Recommendations are made based on individuals' performance in the prior year, considering non-financial metrics and the Firm's overall position.

Heads of Departments and business units, in consultation with line management, complete an annual review of all employees' base salaries and recommend amendments where these are considered to be merited. The recommendations are considered by the Board and, if approved, will usually be implemented with effect from 1 May each year.

Decisions on remuneration are taken by the Board and they retain the responsibility for ensuring implementation of the Code, ongoing compliance and the identification of Code Staff.

The Employee shall have the right to a bonus or a time-apportioned bonus if he/she has been employed throughout the whole of the relevant financial year of the Firm.

Correlation between pay and performance

Bonuses are based on the achievement of a number of previously approved goals. This is combined with an overall review of performance carried out by management. Such reviews will consider non-financial metrics.

Given the above, the Firm's remuneration practices do not encourage inappropriate risk taking. It follows that in determining the level of bonus, bonus will only be granted when the Firm considers that such an award is consistent with the Firm's strategy, values and long-term interests.

The allocation of the bonus pool is based on the contribution of each business unit within the Firm as demonstrated by the management accounts, and of each individual's contribution to the Firm's results as assessed during the performance appraisal process completed during February each year.

Each employee's performance appraisal is properly documented by the appraising manager so that the link between performance and bonus allocation is clear. Non-financial performance criteria form a significant part of the performance assessment process, with explicit reference to the firm's breaches, dealing errors, complaints, CPD training records and any outstanding audit points. Poor performance in non-financial metrics is likely to over-ride metrics of financial performance.

Bonuses are awarded in a manner that promotes sound risk management and does not induce excessive risk-taking. This is done by ensuring that:

- an appropriate balance exists between fixed, performance-based components and deferred bonus component;
- the fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component possible;
- the performance-based component reflects the risk underlying the achieved result;
- the deferred bonus component focuses on risk and sustainability, as well as aids the retention;
- awarded performance-based pay may be forfeited in full or in part if granted on the basis of unsatisfactory results of the appraisal;
- the bonus may be adjusted to reflect performance even after the employee has been notified of the bonus; and
- employees with less than 1 year of service are not entitled to the bonus.

Performance-based remuneration pools must be based on an assessment of the Firm's budget performance. The Board has responsibility to decide on the funds to be allocated to the performance-based remuneration pools. The Firm's Risk control function is involved to ensure that risk, capital and liquidity limits are not exceeded.

The Board has discretion in the allocation of the pool to business divisions. The Board must make recommendations on allocation of the pool to the business/support units.

Line Managers for each business/support units have discretion on allocating bonus payments to individuals in their department. The appraisal results are taken into consideration when the bonus pool is distributed.

When allocating the bonus pool, the Board may consider other factors, i.e.:

- contribution of the division to earnings;
- assessment of the contribution to risk management and compliance by function (in case of a support function);
- assessment of risk management and compliance by the division (in case of a business unit);
- appraisal results;
- length of service;
- disciplinary records; and
- compliance breach records.

For the avoidance of doubt, any instance of failure to comply with relevant legislation, regulations, or internal policies and procedures will be taken very seriously and will impact upon the level of any element of variable remuneration which might otherwise have been awarded.

The following forms of financial compensation are prohibited:

- payments from a Firm within the Otkritie Holding group of companies other than OCIL unless approved by the Board of OCIL;
- money or cash convertible gifts or inducements (as described in Conflicts of Interest Policy); or
- bribes (further information in Bribery and Corruption Policy).

In addition, employees are prohibited from entering into a personal hedging strategy or taking out insurance contracts against any downward adjustment to their remuneration, or any other practice that largely or wholly negates this Policy's purpose to achieve risk alignment.

Any paid work not forming part of the employee's employment contract with a member of Otkritie Holding must be pre-approved in accordance with the Outside Business Interests Policy, found in the Compliance Policy.

The following table contains remuneration of staff and directors

	2016, USD
Employees	**25 425 940**
Wages and salaries	*20 469 294*
Social security costs	*2 515 370*
Other staff costs	*2 441 276*
Average number of staff members	*207*
Directors	**1 807 060**
Emoluments	*1 699 867*
Payment to pension schemes	*107 193*

Number of directors	*7*

14. Capital Requirements Directive Pillar 3 disclosure

The following table summarises OCIL's regulatory capital resources at 31 December, 2016:

Capital Requirement Calculation Breakdown, $000	**2015**	**2016**
Credit risk	40 172	65 106
Market risk	58 728	64 678
Operational risk	20 516	23 570
Concentration risk	-	-
Total Capital requirements under Pillar 1	**116 038**	**153 354**
Capital requirements for risks not fully covered under Pillar 1	**152 075**	**87 819**
Capital Planning Buffer	16 000	19 613
Total Internal Capital Requirements	**284 113**	**260 786**
Capital resources	**356 029**	**383 164**
Excess over Pillar 1 requirements	239 991	229 810
Excess over Internal Capital Requirements	71 916	122 378

There is currently a surplus between the capital resources of the Firm and the capital requirements of the Firm as detailed above.

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment on the Firm.

The Firm is subject to the disclosures under the Banking Consolidation Directive, however, it is not a member of a UK Consolidation Group and consequently does not report on a consolidated basis for accounting and prudential purposes.

15. Governance

This document was discussed at the Risk Management and Compliance Committee and further at the Board Risk and Compliance Committee, which was formally approved for publishing in the Firm's website

Further enquiries should you have any queries, please contact:

David Moss, Compliance Officer
Direct Line: +44 (0) 20 7826 8235
Fax: + 44 (0) 20 7826 8201
E-mail: david.moss@otkritie.com

Sergey Evseev, Chief Risk Officer
Direct Line: +44 (0) 20 7826 8218
Fax: + 44 (0) 20 7826 8201
E-mail: sergey.evseev@otkritie.com