

Sova Capital Limited

Pillar 3 disclosures for the year ended 31 December, 2019

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1. Overview

These disclosures are made as at 31 December 2019. The Pillar 3 Disclosures are prepared on an individual (solo) basis.

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”) and the Final report on the guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 issued in December 2017 and amended in June 2017 by the European Banking Authority (“Guidelines”), the disclosures included in this website relate to the Sova Capital Limited (“SCL” or “the Firm”) (previously known as Otkritie Capital International Limited) and are required to be made on at least an annual basis.

These disclosures constitute the 3rd pillar set by the Basel Accord:

- **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 its general risk profile.

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. Under this regulatory obligation the Firm is obliged to provide information on its risk management, capital structure, capital adequacy and risk exposures, as well as the most important characteristics of the Firm’s corporate governance including its remuneration system. The purpose of these disclosures is to promote market discipline and to improve transparency of market participants. The Board of Directors (“the Board”) are responsible for the Firm’s system of internal control and for ensuring its effectiveness. The risk management framework adopted within the Firm can provide reasonable, but not absolute assurance against material financial misstatement or loss and is designed to manage not eliminate risk.

2. Business Model

Sova Capital Limited was authorised by the FCA (reference number 225539) to provide regulated products and services on 26 March 2004. The list of the services the Firm is authorised to provide is set out in Annex 1.

Following a change of control in January 2018, the Firm became a subsidiary of Concern ROSSIUM, a group of companies headquartered in Russia. Prior to September 2017, the Firm was part of the Otkritie Group of companies. In 2019 the Firm’s shareholders structure was streamlined and it is no longer a part of the Concern ROSSIUM, but the two have common shareholders. This is a strategic move which would improve the transparency of the market perception and further enhance the operational resilience of the Firm.

The Firm is a broker specialising in client orders execution and prime services for various financial instruments - fixed income securities, equities, currencies, commodities and derivatives of these assets. Its income is generated by earning commissions from transactions on a brokerage basis, by earning interest on client margin trading, securities financing, equities lending and borrowing, and by changes in value of financial instruments acquired on a principal basis.

3. Risk overview

The Firm’s governance framework consists of several levels. It has the following committees executing risk oversight:

- Board Risk and Compliance Committee (“BRCC”)
- Board Audit Committee (“BAC”)
- Remuneration Committee (“RemCo”)

- Nomination Committee (“NomCom”)
- Risk Management & Compliance Committee (“RMCC”)

The Board has overall responsibility for the Firm's system of internal controls, the objectives of which are the safeguarding of the Firm'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, as well as to prevent and detect fraud and other irregularities.

The governing body is sufficiently diverse as regards age and educational and professional background in order to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge.

The Board regularly reviews the effectiveness of SCL's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks throughout the year. The BRCC is comprised of three Directors including two Non-executive Directors - Howard Snell (Chairman), David Newton and Alla Bashenko (subject to FCA approval) (independent Non-Executive Directors). It monitors risk factors and the efficacy of controls.

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

Risk is an integral part of SCL's business. The main risks faced by SCL are credit risk, market risk, liquidity risk and operational risk. However, the overall risk profile of the Firm is wider and the risk management framework has been designed to address the full suite of risks to which the firm is exposed. The main objective of risk management is to reach an optimal balance between the level of risk taken and reward. Risk management reduces risks to the level accepted by the Firm, as prescribed within its Risk Appetite Statement. The effectiveness of risk management rests on the following aspects: positive corporate culture (implies individual responsibility for the decisions made), actively observed policies and procedures, use of technology (for risk assessment and communication), and independence of risk management professionals. An active programme of reviewing and updating the Firm's policies and procedures is conducted in the Firm leading to systematisation of the processes of risk management. Risk exposure is monitored on a regular basis.

The Risk Management framework within SCL consists of several levels. The first level, or the first line of defence, relates to front office personnel acting in accordance with their approved trading mandates. These document the business idea or trading strategy, along with certain restrictions and limitations related to the execution of those strategies. The four eyes principle is executed at this level where the performance and risk capacity of an individual trader is supervised by a relevant head of the business unit.

The second level is the independent risk management department and compliance department along with the RMCC which is comprised of senior managers from the front office and the support functions.

The third level is the Board executing its risk oversight function via the BRCC and the BAC, both consist primarily of non-executive directors. The internal audit function provides a full support to the Board's members in executing its risk oversight function.

The Firm, taking into account the nature, scale and complexity of its business activities, as well as the nature and range of its investment services and activities, has established and maintains an internal audit function that is adequately resourced and independent of the management of the business.

The Internal Audit function is responsible for oversight of the Internal Control System (hereinafter, the “ICS”) and its proper and effective operation. It undertakes this by periodic reviews of all main areas of the Firm every 2 years at least.

Internal Audit has clear and unrestricted access to the Firm's personnel and all books and records as it sees appropriate. Likewise, the Firm's employees have access to the Chief Internal Auditor for the reporting of any significant deviations from the guidelines provided. The Board ensures that internal audit issues are considered when presented to it by Internal Audit and appropriate and timely actions are taken. The Board ensures all issues are dealt with and prioritised according to the Board's assessment.

The Directors in discussions with senior management determine the Firm's business strategy and risk appetite, recognising the risks that the business faces in pursuit of its strategy. The Directors meet on a regular basis and discuss current projections for profitability, regulatory capital management, business planning and risk

management matters. 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 of operating a defined, efficient and transparent risk management framework. These policies and procedures are updated on at least an annual basis, or more frequently as required. The Firm follows the standardised approach to both market risk and credit risk.

The BRCC is updated regarding any risk issues by the Chief Risk Officer ("CRO") and is informed of the RMCC's resolutions. In addition, it receives formal reports on internal audit, compliance and money-laundering issues at least annually. The Board is subsequently updated by the BRCC.

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.

SCL Risk Management actively manages the risks through real-time monitoring and daily reporting on credit, market, liquidity and operational risk. The Firm's Risk Department works closely with the Front Office to ensure that appropriate risk limits are being issued and applied and any limit breaches are being actively monitored.

COVID-19

The firm has been closely monitoring the developments around the spread and impact of the Covid-19 virus and the likely responses from various relevant governments, agencies and counterparties, overseen by the COO. In the short term Sova has taken a number of steps to ensure operational resilience and compliance monitoring integrity, with the safety of our staff in London and Moscow being our first priority. These include remote working, travel restrictions, self-isolation for a number of staff members, and changes to office protocols to ensure safe working if and when staff are in the firm's offices. Given the significant impact of the lockdowns in the UK and Russia in March-May 2020, the firm has required most of its staff to work remotely with full access to Sova's key systems and full IT support. Sova is able to continue this working model for a prolonged period without compromising operational or compliance activities, and all key functions continue to operate without material disruption. The management team continue to monitor capital and liquidity needs closely. The firm periodically conducts stress tests to ensure that it could survive severe market stress. These stress scenarios include a significant number of client departures, a reduction in trading activity (for both clients and the firm's proprietary desk) and defaults of the several issuers of fixed income instruments held by the firm within the trading book. The outcomes of such stress scenarios are incorporated into a decision making process.

4. 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.

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

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, increasing the value of the Firm and implementing risk-awareness into the decision-making processes. As part of the annual ordinary business planning process, the Firm's RAS is communicated by the Firm's Board via the BRCC to the 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 an appropriate mix of KPIs/KRIs.

The Firm has assessed its overall risk appetite and internal control framework, taking into account its systems and controls, and policies and procedures. Notwithstanding this, the Firm has 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 SCL's business over the last few years;
- the Firm's portfolio of 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 its balance sheet;

- the Firm's Trading Book activities, which includes the facilitation of client orders and principal trading activities;
- the Firm's limited client base, dealing only with professional clients and eligible counterparties, as classified in accordance with MiFID;
- the Firm's adherence to CASS rules and its approach towards the protection of client money and client assets;
- the Firm's particular expertise towards emerging Markets - focusing its business activities on various financial instruments traded in, amongst others, Russian financial markets or derived from/ based on those; and
- the Firm's risk profile and its approach towards risk optimisation through the use of risk transfer and risk mitigation tools.

5. Board Declaration - Adequacy of the Risk Management arrangements

The Firm maintains a comprehensive suite of risk management policies and procedures in order to identify the risks relating to its activities, processes and systems and set the level of risk tolerated. These policies and procedures are constantly updated in accordance with the changing supervisory requirements, business environment of the Firm and recommendations of the internal audit and compliance units.

6. Capital resources

The Firm's capital resources comprise only Tier 1 Capital (Common Equity Tier 1 Capital), namely paid-up capital and share premium account. At the end of 2019 the Firm's capital base (including audited financial result) was \$396,165M. The net audited financial result for 2019 was \$40.770M. As at 31/12/2019 the Capital Adequacy Ratio was 22.66%

In 2018 management launched the execution of the business strategy agreed with the new shareholders. The ongoing assessment of business line profitability and constant cost control were among the core elements of the strategy deployment process. The Firm regained a significant part of its client base and also reached some new client segments. In 2019 the Firm completed the acquisition of an alternative investment management company incorporated within the EU, which is expected to boost the long-term financial performance of the Sova groupe. The financial result was positive, generating no material change in the risk profile while remaining within the approved risk appetite.

Due to the macroeconomic situation in one of the Firm's primary markets, Russia, the Firm's performance is under substantial pressure. Further the sanctions imposed on legal and natural persons in Russia have introduced certain restrictions and constraints on the Firm's business activity which, coupled with Brexit uncertainties, have had a certain negative effect upon the Firm's performance. Nevertheless, as expected, the Firm was able to generate a profit, maintain high levels of liquidity resources and manage its working capital requirements very carefully. The Firm has a strong client base and client retention is high.

The table below shows the Firm's regulatory capital resources as at 31 December 2019 (based on audited financials).

\$000's	Year ended 31/12/2019
Capital instruments eligible as CET1 Capital	396 166
Called up share capital	346 032
Share premium account	4 501
Available for sale reserve	0
Retained earnings	40 770
Other transitional arrangements to CET1 Capital	4 863
COMMON EQUITY TIER 1 CAPITAL	396 166
ADDITIONAL TIER 1 CAPITAL	0
TIER 2 CAPITAL	0
Total Eligible Own Funds	396 166

The Firm manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the improvement of the debt to equity ratio. The Firm's overall strategy remains unchanged from the previous year.

The legal and regulatory framework under which the Firm operates stipulates that the Firm must maintain a minimum capital adequacy ratio, being 8% as at 31 December 2019. The method of calculation is set up by the regulatory authority based on the International Basel II capital adequacy requirement directives. The Firm aims to always maintain a high capital adequacy ratio well above the required minimum. This is reported to the Firm's regulatory authority on a quarterly basis.

The Firm's objectives when managing capital are to safeguard the Firm's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Firm maintains only Tier 1 capital as eligible own funds: share capital and retained earnings.

7. Minimum Capital requirements

The total Risk Weighted Assets and capital requirements of the Firm as at 31 December 2019 are set out in the table below.

Risk Category	Risk Weighted Assets (\$000)	Minimum Capital Requirements (\$000)
Credit Risk ¹	733 058	58 645
Market Risk	749 218	59 937
Operational risk	198 526	15 882
Total	1 680 802	134 464

8. Internal Capital Adequacy Assessment Process

SCL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is a system consisting 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.

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

SCL defines capital as the resources necessary to cover all relevant risks. The ICAAP is the mechanism through 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.

9. Credit Risk

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

- Pre-settlement risk is defined as the risk that one party to 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

¹ It includes Total Risk Exposure Amount For Settlement/Delivery, Total Risk Exposure Amount Related To Large Exposures in the Trading Book and Total Risk Exposure Amount For Credit Valuation Adjustment

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 minimises 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, SCL sets limits for various counterparties and monitors these limits constantly.

SCL provides services for 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 SCL at risk, SCL 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.

SCL Risk Management assesses counterparties' creditworthiness and assigns to them internal credit ratings, which are mapped against external ratings. Under the standardised approach for credit risk SCL uses 3 ratings providers, i.e. ECAs - Standard & Poor's, Moody's and Fitch.

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

Exposure classes	Risk Weighted Assets for Credit Risk	Pillar Requirement 1	Additional Capital Requirement (Pillar 2)	Internal Capital allocated for Credit Risk
TOTAL	642 166			
Institutions	207 617	51 373	31 103	82 476
Corporates	427 828			
Other	6 721			

The additional capital requirement for credit risk under the ICAAP was predominately caused by the very conservative assessment of:

- the concentration risk attributable to the business model and target market (e.g. derivative transactions hedging or offsetting market risk are mostly executed at the Moscow Exchange); this affects the trading book activities in various aspects - repurchase transactions, funds at MOEX CCP, funds with the broker, etc.;
- settlement risk; and
- the risk of default of a bank or a broker.

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 originating 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 order facilitation, proprietary trading and agency dealing commission.

Credit risk concentrations include:

- significant exposure to individual counterparties or a 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 for 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 SCL uses the settlement services of one of the world’s largest financial group entities 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 used is an independent service provider whose risk profile has been assessed and approved by management.

For futures and options business there are two main settlement and clearing agents - entities belonging to two independent major global financial groups. Both are regulated entities with excellent credit ratings.

10. 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 is also one of its main risk factors. The Firm is exposed to market risk in several instruments - equity business, equity derivatives, fixed income securities and currencies.

The Firm’s enterprise risk framework incorporates the process of market risk management and articulates the tools and techniques that are used in the management of market risk arising in its day-to-day business activities. This includes the application of various market risk limits, trading mandates, clear and transparent escalation routes, and stress-testing and hedging methodologies.

The Firm’s total market risk capital requirements are presented in the table below (\$000’s)

Type of asset	Original exposure amount	Pillar Requirement 1	Additional Capital Requirement (Pillar 2)	Internal Capital allocated for Market Risk
Traded Debt Instruments	436 479	34 918	5 680	65 617
Equity and equity based derivative instruments	188 835	15 107		
FX	121 809	9 745		
Commodities	2 095	168		
Total	749 218	59 937	5 680	65 617

The additional capital requirement for market risk under the ICAAP was driven by risk factors attributable to the price risk in fixed income and equity instruments and FX rates.

11. Liquidity Risk

Liquidity risk is the risk where the Firm, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or it 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.

SCL’s policy is to ensure that it maintains liquidity resources that 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 is provided daily to the senior management.

Being the subject of the UK national liquidity regime, the Firm evaluates its liquidity risk exposure profile under its ILAA. In terms of additional capital requirements management considers \$2.329M as a sufficient capital buffer based on the structure of the liquidity resources.

12. Operational Risk

SCL defines Operational risk as the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems or from external events. SCL 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 the BRCC, RMCC and the Risk Management department. Further assurance is provided by Internal Audit and SCL's Compliance department.

The Firm uses the Basic Indicator Approach (BIA) for calculating the amount of regulatory capital on operational risk (Pillar 1). It is based on the calculation of the Gross Income of the Firm, which is calculated by the Finance Department.

The Pillar 1 operational risk capital requirement is calculated as the average gross income for the last 3 years multiplied by 15%. Consequently the operational risk RWA amount is calculated as capital risk requirement divided by 8%.

In \$000	2017	2018	2019
Own Funds Requirement	\$15 670	\$13 662	\$15 882
Operational risk RWA	\$195 887	\$170 770	\$198 526
Additional RWA under ICAAP	-	-	-

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, several stress-tests are performed. Management believes that these stress tests are a useful tool for the assessment of these additional risks.

As a part of operational risk management a framework of Operational risk KRIs/KPIs have been set in the relevant areas based on the risk factors - personnel, business processes, IT and infrastructure systems, and external factors.

Several approaches have employed in assessing the Firm's capital needs under ICAAP. These are:

1. Self-assessment of operational risk exposures (per each event type) by the heads of departments in accordance with the methodology stated in the SCL ICAAP manual; and
2. Stress testing in accordance with the methodology stated within the SCL Operational risk management policy.

Based on the two approaches we consider the resultant economic capital as sufficient to cover operational risk. As this amount is less than the regulatory capital requirement, we consider the latter to be sufficient to offset operational risk losses. Additional capital under Pillar II is therefore not required.

13. Technology (IT risk)

Given the reliance of the Firm's activities upon a stable IT infrastructure for its day-to-day activities, management have decided to consider technology risk as a stand-alone risk. Accordingly, it has incorporated various mitigation techniques around the different types of technology/IT risks. It considers this type of risk may consist of:

- IT risk; and
- Cyber risk.

The Firm's IT department has created an inventory of critical systems, along with key risk factors, such as time required for functionality restoration and cross-references between the systems in order to assess dependencies and any 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.

In 2019 the Firm restructured its technology department by splitting IT and Cyber security. It also conducted an internal audit review of CyberSec. As a result of this review a remediation program was established which is being successfully implemented by the newly appointed CISO and his team along with support from every member of staff. Based on the audit results and internal assessment the Firm estimates the additional capital requirement for this risk as \$10M.

14. 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 therefore no capital has been provided for this type of risk.

15. Regulatory and conduct risk

The Board considers the following risks to be key ones among the broad range regulatory risks in light of business activities of the Firm:

- conduct risk (general compliance, including Market Abuse);
- financial crime risk; and
- sanctions risk.

SCL has adopted a proactive approach in addressing our customer strategies, culture and conduct risk appetite. This covers culture and governance, from the mindsets, behaviour, competence and compliance of the Firm's leadership, through to the Firm's approach to managing and rewarding people, as it puts the interests of its customers first as part of its business decision-making process and in formulating its suite of policies.

Market Abuse is considered a key conduct risk to the business. Further, to support its customers and the different client services SCL offers, the management is mindful of potential conflicts of interest and the key risk factors across markets. Systems and controls and key processes are supported by policies, procedures and proper review and approval processes and oversight arrangements.

The effective implementation of the FCA's SMCR regime is considered central to the task of embedding the accountability culture necessary to contain risks within each business division. The firm has accordingly allocated dedicated resource to ensure that this regime is implemented fully, in spirit as well as by the letter. In parallel, throughout the past year SCL has been engaged in a programme of re-enforcing within the Firm the 'three lines of defence' ("3OLoD") model whereby compliance with regulatory and legal obligations sits firmly with the business, monitored and controlled by the second line - Compliance and Risk. "Every employee is a compliance office" - as stated by the CEO, Sergey Sukhanov, to his entire staff during a town hall meeting in July 2020.

The Firm expects Senior Management to take responsibility for managing financial crime risks, which should be treated in the same manner as other risks faced by the business, but with particular regard to the number of high risk clients with whom the Firm does business. Senior managers are actively engaged as well as set the right tone and demonstrate leadership in the Firm's approach to addressing the risks.

Customer due diligence is key in managing AML risk. The Firm has robust client on-boarding and KYC refresh procedures. The Client's ownership structure and UBOs, political connections, country risk, source of wealth / source of funds and account activity are thoroughly examined.

Sanctions-related checks are embedded into the KYC/ due diligence processes employed by Sova to ensure sanctions-related issues are identified, escalated to Senior Management, addressed prior to the conclusion of any transaction, and incorporated into the risk assessment process.

All employees receive regular mandatory training that covers, in particular, sanction compliance aspects.

16. Remuneration Policy Disclosures

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

The Board of Directors has established the Remuneration Committee ("RemCo"), which has the following responsibilities:

- Exercising competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity; and
- Preparing the decisions regarding remuneration, including those which have implications for the risk and risk management of the company concerned and which are to be taken by the board of directors.

The RemCo shall take into account the long-term interests of shareholders, investors and other stakeholders in the company and the public interest.

The RemCo consists of three Non-Executive Directors of the Company including 2 Independent NEDs (2018 - 2 NEDs and 1 Executive Director). The Remuneration Committee met in April 2019. Any further meetings are called as and when required.

The committee on behalf of the Board retains responsibility for ensuring implementation of the FCA remuneration code ongoing compliance and the identification of Code Staff.

Correlation between pay and performance

The company operates a discretionary bonus scheme and may in its absolute discretion pay a bonus to eligible employees. Employees who have been with the company for the whole of the relevant financial year, will be considered if bonuses are payable.

Bonuses are based on the achievement of a number of previously approved goals and competencies that reflect conduct. This is combined with an overall review of performance carried out by management. Such reviews will consider non-financial metrics, including breach of regulatory rules or guidelines.

To ensure that the proper balance of variable and invariable remuneration is maintained, the company applies market and performance driven approach to the invariable remuneration, with annual review and payrise based on market benchmarks analysis to ensure fair and relevant remuneration.

Given the above, the Firm's remuneration regime is designed so as not to encourage inappropriate risk taking. It follows that in determining the level of bonus, a bonus will only be granted when the Firm considers that such an award is consistent with the Firm's strategy, values, long-term interests, regulatory requirements and capital base.

The allocation of the bonus pool is based on the contribution of each business/support 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.

However it is also based on the long-term profitability of the firm for the relevant year, and adjusted to account for the following factors;

- Business forecast and strategy for a following year;
- Reputational risk, conduct risk, client outcomes, and values of the firm;
- Prospective regulatory risks to the business for a following year;
- the timing and likelihood of potential future revenues incorporated into current earnings or future losses;
- the strength of the capital and liquidity position of the firm; and
- such other factors as RemCo shall consider appropriate in that year (if any).

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 and performance-based components and the 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; and
- the bonus may be adjusted to reflect performance even after the employee has been notified of the bonus.

Performance-based remuneration pools must be based on an assessment of the Firm's budget performance. The RemCo has responsibility to decide on the funds to be allocated to the performance-based remuneration pools.

The RemCo can make recommendations on the 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 RemCo may consider other factors, i.e.:

- contribution of the division to earnings;
- assessment of the contribution to risk management and compliance by that function (in the case of a support function);
- assessment of risk management and compliance by the division (in the case of a business unit);
- appraisal results;
- length of service;
- disciplinary records;
- non-compliance with mandatory training requirements;
- compliance breach records;
- breach of trading limits; and
- breach of the Firm's policies and procedures.

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 Concern Rossium group of companies other than SCL unless approved by the Board of SCL;
- money or cash convertible gifts or inducements (as described in Conflicts of Interest Policy); or
- bribes (further information in the Anti-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 Concern Rossium group must be pre-approved in accordance with the Outside Business Interests Policy, found in the Compliance Policy.

The table below presents a breakdown for 2019 of the annual remuneration for those categories of staff whose professional activities have a material impact on the risk profile of the Company, by business area:

Business area	Fixed remuneration (\$000)	Variable remuneration (\$000)	Aggregate Remuneration (\$000)
Control function	2,884	1,673	4,557
Trading function	5,621	3,121	8,742
Total	8,505	4,794	13,299

The aggregate remuneration for 2019, broken down by Senior Management & Executive and Non-Executive Directors and members of staff whose actions have a material impact on the risk profile of the Company, is as follows:

Personnel	No. of people	Fixed (\$000)	Variable (\$000)	Aggregate (\$000)
Senior management (including executive and non-executive directors)	11	2,909	1,916	4,825
Other risk staff	56	6,147	3,144	9,291
Total	67	9,056	5,060	14,116

17. Capital Requirements Directive Pillar 3 disclosure

The following table summarises SCL's regulatory capital resources at 31 December, 2019

Capital Requirement Calculation Breakdown, \$000	2018	2019
Credit risk	59 249	58 645
Market risk	51 711	59 937
Operational risk	13 662	15 882
Total Capital requirements under Pillar 1	124 622	134 464
Capital requirements for risks not fully covered under Pillar 1	58 014	54 458
Capital Planning Buffer/Combined Capital Buffer ("CCB")	26 071	43 701
Total Internal Capital Requirements and CCB	208 706	232 623
Capital resources	387 164	396 166
Excess over Pillar 1 requirements	262 543	261 702
Excess over Internal Capital Requirements and CCB	178 458	163 543

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.

18. 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

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Annex 1 Permitted activities

Permission for customers type		Activity									
		Advising on investments	Arranging (bringing about) deals in investments	Arranging safeguarding and administration of assets	Causing dematerialised instructions to be sent	Dealing in investments as <u>agent</u>	Dealing in investments as <u>principal</u>	Making arrangements with a view to transactions in investments	Managing investments	Safeguarding and administration of assets (without arranging)	Sending dematerialised instructions
Investment instruments	Certificates representing certain security	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional
	Commodity Future	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted
	Commodity option and option on commodity future	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted
	Contract for Differences (excluding a spread bet and a rolling spot forex contract)	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted
	Debenture	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional
	Future (excluding a commodity future and a rolling spot forex contract)	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Not Permitted
	Government and public security	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional
	Option (excluding a commodity option and an option on a commodity future)	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional	Eligible Counterparty Professional
	Rolling spot forex contract	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Not Permitted	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Not Permitted

		Professional	Professional	Professional		Professional	Professional	Professional	Professional	Professional	
	Share	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty
		Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional
	Unit	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty
		Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional
	Warrant	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty	Eligible Counterparty
		Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional	Professional
LIMITATIONS <i>(Also note general restrictions on dealing with clients from certain jurisdictions, in particular with US clients)</i>		Rights to or interests in (both).	Rights/interests - securities limited to securities listed	Rights/interests - securities limited to securities listed	Rights to or interests in (both).	Rights to or interests in (both).	Rights to or interests in (both).	Rights to or interests in (both).	Rights to or interests in (both).	Rights/interests - securities limited to securities listed	Rights to or interests in (both).