



SOLID FINANCIAL SERVICES LIMITED

Solid Financial Services (Cyprus) Limited

**Disclosures in accordance with the Cyprus Securities
and Exchange Commission
Directive DI144-2007-05**

As at 31 December 2011



General Notes

Solid Financial Services (Cyprus) Limited (hereafter referred to as “the Company”) has prepared the following disclosures based on the audited financial statements for the year ended 31December 2011.

While the information included in the Disclosures derives from the Financial Statements, the Disclosures do not constitute the Company’s Financial Statements nor do they constitute any form of contemporary or forward looking record or opinion of the Company.

They are prepared to explain how the Company manages risks, under the requirements of the Cyprus Securities and Exchange Commission (hereafter referred to as “CySEC” or “the Regulator”) and explain how much capital is assigned to these risks for their management.

The disclosures have been reviewed and approved by the Company’s Board of Directors, while they have been verified by the Company’s external auditor. The figures disclosed below are to the nearest thousand.



Table of Contents

I	SCOPE OF THE APPLICATION	4
II	CAPITAL BASE	5
III	RISK MANAGEMENT	5
IV	CAPITAL REQUIREMENTS.....	6
V	CREDIT RISK.....	7
VI	MARKET RISK	9
VII	LIQUIDITY RISK.....	10
VIII	OPERATIONAL RISK	10



I Scope of the Application

Governing Law

These disclosures have been prepared in accordance with the Capital Requirements of Investment Firms Directive DII44-2007-05 (“the Directive”), of CySEC, Chapter 7 (Disclosure and Market Discipline of Part C, paragraphs 34 – 38 and namely Annex XII, Part 2).

Policy Statement

Following a careful consideration of the specific characteristics of the Company, such as the scale, size and complexity of its operations, type of financial instruments traded, financial markets in which trading activity is carried out; the Company’s Board of Directors has decided that all of the Disclosures need to be published annually. It has also been decided that the Disclosures will be published only on the Company’s website.

Background

The Company has got a license from CySEC, CIF 065/06. Under its license the Company is entitled to provide the following investment and ancillary services:

- Reception and transmission of orders;*
- Dealing on own account;*
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management*
- Granting credits or loans to investors to allow them to carry out transactions in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction*
- Foreign exchange services where these are connected to the provision of Investment services*



SOLID FINANCIAL SERVICES LIMITED

According to the Directive the Company needs to disclose whether “it has any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries”. Solid Financial Services Limited confirms that there is not legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

II Capital Base

Regulatory Capital

The Company’s capital base comprises of Original Own Funds (Tier 1 Capital), namely Share Capital and Reserves. It should be noted that the Company’s Share Capital refers to Ordinary shares while Reserves include only Retained Earnings (Accumulated Retained Profits and Audited Profit/ Loss for the year).

The Cyprus Securities and Exchange Commission allow the Company to exclude from determination of exposures, the investments in Solid Capital Fund (Cyprus) Ltd and ZPIF Solid Kreditniy (Russia), provided that these are excluded from own funds of the Company and are covered 100% by them.

Intangible assets including goodwill, formation and software expenses are deducted from original own funds in compliance with the requirements of Directive DI144-2007-05.

The table below shows the Company’s capital base as at 31 December 2011.

	Ended 31/12/2011
Original Own Funds	USD'000
Share Capital	322.14
Retained Earnings	3934.76
Other deductions from Original Own Funds	(1950.69)
Total	2306.21



III Risk Management

The responsibility for the overall framework of risk governance and management lies with the Board of Directors. The Management recognizes that risk is embedded in all the Company's activities and for this reason it recognizes the need to continually identify, assess, monitor and control each type of risk.

More specifically the responsibilities of the Board of Directors and Senior Management with regards to managing risks are to:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Review the report received from the Risk Management Department and take action whenever necessary;
- Decide on the Company's risk bearing capacity and risk strategy;
- Ensure that the Company has sufficient capital and risk reserves to cover its needs.

The Company's Board of Directors also established a Risk Management Department whose primary responsibility is to oversee the risk management of the Company. The Board was also observing on a regular basis the Minutes of the Risk Management Committee. The main responsibilities of the Risk Management Department are to:

- Establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities and processes;
- Monitor the adequacy and effectiveness of its risk management policies and procedures;
- Evaluate customer financial data, especially where the Company grants the customers with a credit or loan;
- Manage risks associated with transactions performed on behalf of clients;



SOLID FINANCIAL SERVICES LIMITED

- Monitor risks in respect of the investment risks undertaken, both on aggregate and per customer level.

The Risk Management Department is also responsible for preparing on a frequent basis and at least annually, a report for the Board of Directors. Based on the risk management issues identified the Board of Directors is responsible for taking mitigation actions wherever necessary.

IV Capital Requirements

According to the Directive the Company's management has decided that the most appropriate methods for measuring the capital requirement under Pillar 1 are:

- Credit risk using the Standardized Approach;
- Market risk using the Standardized Approach;
- Operational Risk using the Basic Indicator Approach.

As at 31 December 2011 the Company's capital requirements for the three categories of Pillar 1 risks are as follows:

Risk Category	Pillar 1 Capital Requirement
	USD '000
Credit and counterparty risk	395
Market risk	46
Operational risk	163
Total	604



V 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.

Credit risk also includes sovereign risk (country specific, rather than firm-specific) As specified above, the management of credit risk is important in the overall risk management framework, and as such the Board of Directors has established a Risk Management Department.

MF Global

MF Global formerly known as Man Financial was a major global financial derivatives and stock market broker. MF Global provided futures and options, contracts for difference CFDs, foreign exchange as well as over –the-counter products and spread betting. MF Global was also a primary dealer in United States Treasury securities.

On Sunday, October 30,2011, a unit of the New York-based brokerage first reported to the Chicago Mercantile Exchange (CME) and the Commodity Futures Trading Commission (CFTC) a “material shortfall” of hundreds of millions of dollars in segregated customer funds. On that moment the total amount of own funds of the Company Solid Financial Services Ltd with MF Global was approximately 2,667,000.00 US Dollars (2,704,159.97 USD & -19.52 EUR & 23,031.13 GBP).



SOLID FINANCIAL SERVICES LIMITED

On Monday October 31, 2011, MF Global filed for Chapter 11 bankruptcy. KPMG is now conducting the “Special Administration” for MF Global UK. The process of the refund of funds to the clients of MF Global has been already started by the Special Administrators.

The majority of the Company’s positions held at MF Global, UK were transferred to FC Stone. The remaining positions were closed in compulsory manner.

The situation with MF Global has shown that the Company should enhance its procedures in examining and assessing all types of risks including the risks such as exposure to brokers, business disruption, etc. Particularly the Company should continue monitoring closely the risk imposed by the liquidation of MF Global and assess the impact on its capital requirements.

The Company has got a numerous proposals for acquisition of the debt of MF Global with the bid of 85% in cash.

Exposures

In the following table the Company’s exposures are represented geographically, indicating specifically the most material exposures broken down by significant areas.



Exposures per country (in USD'000)

The Company uses Moody's Investor Services for rating its entire portfolio and it is in compliance with the requirements of Directive DI144-2007-05.

	Cyprus	Russia	United Kingdom
Institutions	4	801	2001
Corporate	116	644	0
CIU	868	0	0
Others	77	634	0

The Cyprus Securities and Exchange Commission allow the Company to exclude from determination of exposures, the investments in Solid Capital Fund (Cyprus) Ltd and ZPIF Solid Kreditniy (Russia), provided that these are excluded from own funds of the Company and are covered 100% by them.

The standardized approach: long term mapping

Moody's assessment

- | | |
|-------------------|------|
| 1) Aaa to Aa3 | 20% |
| 2) A1 to A3 | 50% |
| 3) Baa1 to Baa3 | 100% |
| 4) Ba1 to Ba3 | 100% |
| 5) B1 to B3 | 150% |
| 6) Caa1 and below | 150% |

Exposures by Industry or Counterparty type



SOLID FINANCIAL SERVICES LIMITED

The Company's exposures are concentrated in the Financial Services sector. The Company does not have any exposures in other sectors thus the Company has not performed a classification of exposures by counterparty or industry.

The carrying amount of financial assets represents the maximum credit exposure.

Nominated External Credit Assessment Institutions (ECAI's) for the application of the standardized Approach

According to the requirements of the Directive, under the Standardized Approach, the Company can chose one on of the three nominated ECAIs (Standard and Poor's Rating Services, Fitch Ratings and Moody's Investor Services) for assigning risk weights to its exposures.

The Company uses Moody's Investor Services for rating its entire portfolio, and is in compliance with the requirements of the Directive.

Exposures to an institution with an original effective maturity of three months or less a risk weight of 20% is assigned.

The table below presents only the exposures for each Credit Quality Step before Credit Risk Mitigation.

	CREDIT QUALITY STEP					
Asset class	1	2	3	4	5	6
USD'000	1	2	3	4	5	6
Institutions	802	-	2004	-	-	-
Total Exposure	802	-	2004	-	-	-



SOLID FINANCIAL SERVICES LIMITED

The Company's "Other" exposures are risk weighted at 0% and 100%. They however cannot be classified according to the Credit Ratings as they represent cash exposures trade receivables, prepayments and fixed assets.

VI Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices.

During the year 2011 the Company had the substantial Market risk due to the Positions risk and Foreign Exchange risk. At the end of the year 2011 the Positions risk was minimal.

None the less the Company's Board of Directors, following the recommendations of the Risk Management Department have set up prudent market risk policies and procedures to minimize their market risk that includes foreign exchange risk and liquidity risk. The Risk Management Department also uses Value at Risk methodology in order to evaluate the risk involved with specific instruments.

As specified in section IV- Capital Requirements the Company calculates the minimum capital requirement for market risk using the Standardized Approach and also the calculations of Foreign Exchange Risk.

The Capital Requirements for the market risk is 46.

Foreign Exchange Risk ("FER")

Foreign Exchange Risk is an important aspect of market risk management. The Company takes all reasonable steps to ensure that its capital requirements with regards to Foreign Exchange Risk are not excessive so that they can cause the Company to be in any financial impediment.



SOLID FINANCIAL SERVICES LIMITED

During the year 2011, Risk manager as result of analysis of Company's accounts found that appreciable amounts accumulated in Russian Rubles, videlicet loans, deposits etc.

As per the risk manager's recommendation to the Company's Management was reconsideration of a ratio of currencies.



VII Liquidity Risk

Liquidity risk is an important aspect of financial risk management and arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Company considers liquidity risk to be a material risk since it can affect the Company's position as a going concern. Monitoring of liquidity risk is an integral part of the day-to-day risk management. Specifically in order for the Company to achieve its objective of minimizing liquidity risk the Risk Management Committee ensures that:

- Sufficient cash deposits are maintained;
- Adequate amount of committed credit facilities are maintained and monitored on a continuous basis;
- Daily reconciliations of cash balances and payments are performed

VIII Operational Risk

The Company recognizes Operational Risk as the risk deriving from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters.

The Company's policy with regards to the management of Operational Risk is centered on promoting a culture among employees where Operational Risk is identified and monitored through reporting of Operational Risks, through training and continuous evaluation, monitoring and upgrading of the Company's systems.

Based on the Company's operations the Board of Directors has decided that the Basic Indicator Approach ("BIA") is the most appropriate method to be used to measure the Operational Risk capital requirements. According to the BIA the operational risk capital requirement is calculated by applying 15% rate on the average sum of the net incomes of the last three twelve-month observations, at the end of the financial year.



SOLID FINANCIAL SERVICES LIMITED

In the table below the requirements for operational risk, as at 31 December 2011 are presented.

Operational Risk	Average
	USD '000
Revenue	898.32
Profit from sale of Trading Investments	0.00
Dividend Income	2.80
Interest income	186.56
Total gross income	1087.68
Capital Requirements	163.15