Solid Financial Services (Cyprus) Limited

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

As at 31 December 2014

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 2014.

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

Governing Law

These disclosures have been prepared in accordance with the Capital Requirements of Investment Firms Directive DI144-2007-05 ("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 as at 31st December 2014 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*

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).

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 2014.

	Ended 31/12/14
Original Own Funds	USD'000
Share capital	322.00
Retained Earnings	4675.00
Other deductions from Original Own Funds	(1700)
Total	3297.00

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 and ICAAP Steering 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;
- 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 2014 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	20108
Market risk	13664
Operational risk	2864
Risk related to Large Exposures in the Trading Book	667

TOTAL **37303**

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.

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**	**England**	**United States**
1062.732	9043.847	771.120	29.866

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

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.

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 2014 the Company had the substantial Market risk due to the Positions risk and Foreign Exchange risk.

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.

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.

During the year 2014, 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 & ICAAP Steering 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.

In the table below the requirements for operational risk, as at 31 December 2014 are presented.

Operational Risk	Average (USD ‘000)
Revenue	**2828.752**
Net Loss on Trading in Financial Instruments	(160.199)
Administration services	2.914
Interest income	8.344
Other operating income	0.139
Net Finance Cost	(890.484)
Commissions and other fees payable	(36.966)
Total Gross Income	1752.50
Total average Gross Income	1527.480
Capital Requirements	229.122

IX. Foreign Exchange Risk

This risk usually affects businesses that export and/or import, but it also affect the companies like IF i.e. investors making international investments. Because, if money must be converted to another currency to make a certain investment, then any changes in the currency exchange rate will cause that investment's value to either decrease or increase when the investment is sold and converted back into the original currency.

The Company determined their balances in US dollar, with respect to investing in interests denominated in other currencies, the Balance will be subject to the risk of fluctuation in the rate of exchange between US dollars and the local currencies, and to the risk of currency or exchange controls.

X. ICAAP Process and Capital Position

In autumn 2014, the specialized services of KPMG Ltd were engaged for the design and build of the ICAAP submission. The following work has thus been completed:

- Risk Identification exercise,
- Capital Planning and
- Qualitative parts of the Report.

The Stress Test need to be calculated, and the Report to be completed.

XI. REMUNERATION POLICIES

When establishing and applying the total remuneration policies, inclusive of salaries, for categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile, the Company complies with the following principles:

(a) the remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company;

(b) the remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Company and incorporates measures to avoid conflicts of interest;

(c) the management body, in its supervisory function, adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation;

(d) the implementation of the remuneration policy is subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function;

(e) staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;

(f) the remuneration of the senior officers in the risk management and compliance functions is directly overseen by the management of the Company;

(g) where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Company and when assessing individual performance, financial and non-financial criteria are taken into account;

The management of the Company is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Company concerned. When preparing such decisions, the management takes into account the long-term interests of shareholders, investors and other stakeholders in the Company.