Solid Financial Services Ltd

PILLAR III DISCLOSURES

YEAR ENDED 31 DECEMBER 2018

According to Directives DI144-2014-15 and DI144-2014-14 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

April 2019

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I. INTRODUCTION

Corporate Information

Solid Financial Services Ltd (the "Company") was incorporated in Cyprus on 26 May 2007 as a private limited liability Company under the Cyprus Companies Law, Cap.113. The Company is an authorized Cyprus Investment Firm ("CIF"), regulated by the Cyprus Securities and Exchange Commission ("CySEC").

The Company obtained a Cyprus Investment Firm (CIF) license from the Cyprus Securities and Exchange Commission (CySEC), CIF licence No 065/06 on 23 May 2006.

The Company is categorised as "Full Licence" CIF (under Article 95(1) of the CRR) with minimum/initial capital requirement of € **730,000.**

Services offered by the Company

The Company is authorised to provide the following Investment Services, in accordance with Part I of the First Appendix of the Law:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients:
- Dealing on own account

The Company is authorised to provide the following Ancillary Services, in accordance with Part II of the First Appendix of the Law:

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Granting credit and loans to 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.

The Company is authorised to provide the aforementioned investment and ancillary services for the following Financial Instruments, in accordance with Part III of the First Appendix of the Law:

1. Transferable Securities

2. Money Market Instruments
3. Units in Collective Investment Undertakings
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk.
9. Financial contracts for differences.
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

The table below illustrates the current licence information of the Company.

Table 1: Company Licence Information (based on the First Appendix of the Law 87(I)/2017 as amended)

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Information in the Disclosures is presented in thousands of US Dollars (“US$”) unless otherwise indicated.

II. PILLAR III REGULATORY FRAMEWORK

Basis of Disclosures

The Disclosures have been prepared in accordance with Part Eight of Regulation (EU) No 575/2013, known as the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms (“CRR”), for the year ended 31 December 2018. The CRR and the European Union’s Capital Requirements Directive 2013/36/EU, collectively known as “CRD IV”, are transposed and implemented into local legislation through the Directive DI144-2014-14 for the prudential supervision of Investment Firms and Directive DI144-2014-15 on the discretion of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013, issued by CySEC and entered into force on 19 December 2014.

These Disclosures present the evaluation and management of the various risks faced by the Company during the year ended 31 December 2018. As part of these disclosures, the Company also presents information on its capital structure and regulatory capital requirements.

The Company makes the disclosures on a solo basis.

Frequency of Disclosures and Means of Verification

The Company publishes the Pillar III disclosures on an annual basis on its website and can be found at: https://www.solid.com.cy/disclosures

The Disclosures were approved by the Board of Directors (the "Board" or "BoD"), approving the adequacy of risk management arrangements of the Company and providing assurance that the risk management systems in place are adequate with regards to the Company's profile and strategy.

Declaration

The Board has the ultimate responsibility for the risk management processes and practices in place. The Board evaluates that the Company's risk management strategies and policies are effective and adequately monitoring, managing and mitigating the Company's risks.

The Board considers that the Company has established effective risk management arrangements considering the profile and strategy of the Company.

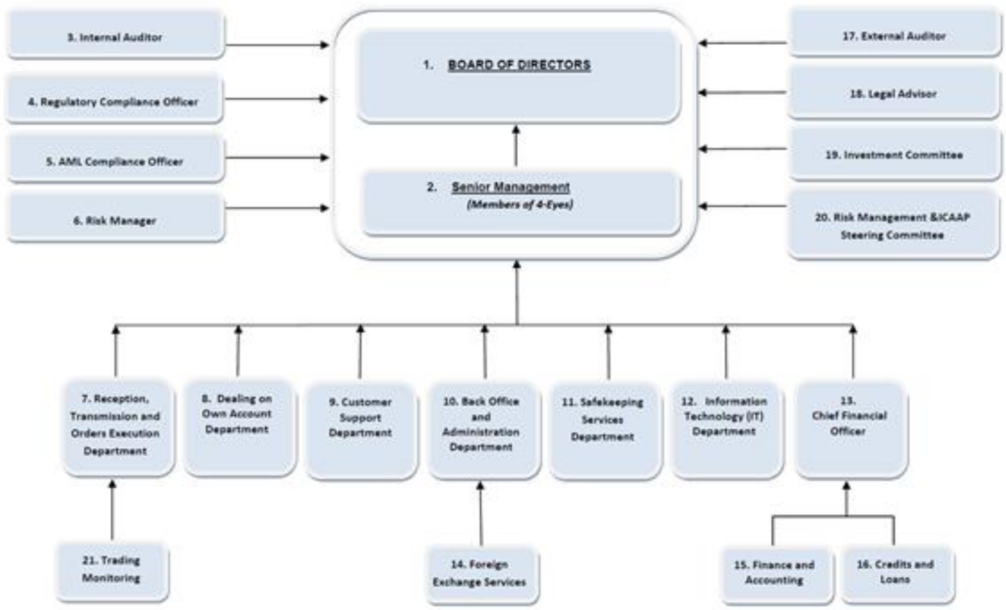
III. GOVERNANCE ARRANGEMENTS

Risk Management Framework and Governance

Managing risk effectively in a multifaceted organization, operating in a continuously changing risk environment, requires a strong risk management function ("RMF"). To this end, the Company has established an effective risk oversight structure and the necessary internal organizational controls to ensure that the Company identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits and complies with the relevant legislation. In this respect, the Board and Senior Management of the Company are satisfied that the Risk Management framework is appropriate given the risk profile of the Company and its strategy.

The management and BoD recognize that risk is embedded in all activities of the Company. Hence the Company supports the implementation of a risk management framework, as described in the following section. In this respect, the Company has established relevant Risk Appetite and Risk Assessment procedures. The BoD and the Management accept a required level of risk to achieve the required level of return, considering the risk identification assessment procedures performed.

The structure of the Company is depicted in the following diagram:



Risk Governance - Board and Committees

The purpose of the Company's committees, described in detail below, is to assist the BoD in identifying and managing the risks faced by the Company. Even if the Board deems necessary to provide these committees with the power to act upon the identified risks, so as to ensure effective, efficient and timely management of those risks, the ultimate responsibility does not lie to the committee itself. Ultimately, the responsibility of risk management lies with the Board.

The Board of Directors

Risk management is embedded in the Company's strategy and decision-making process. The Board comprehends and abides the multidimensional nature of risk. The BoD's responsibility against risk management is to set the risk appetite and ensure that the risk management framework is appropriate and effective.

The BoD ensures on an ongoing basis that the risk management framework in place monitors the process of identifying, evaluating, managing and reporting the risks faced. The BoD reviews and challenges the systems and controls in place. Policies and procedures relating to risk management are presented and approved by the BoD as the ultimate risk responsibility is borne by the BoD. The Internal Capital Adequacy Assessment Process (ICAAP) is examined by the Board and has a direct effect on the decision making of the BoD.

Governance Committees

RISK MANAGEMENT AND ICAAP STEERING COMMITTEE

In order to support effective governance and management of the wide range of responsibilities the Board has established the Risk Management Committee. The role of the Risk Management Committee is to provide oversight, review and challenge of the material risks both current and future affecting the business whilst ensuring that there is effective management and control of all key risks and issues facing the Company. The Risk Management Committee, inter alia, scrutinizes, and decides on various risks inherent with the operation of the Company with the view to formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company. Moreover, the Risk Management Committee reviews the risk management procedures in place (monitors and controls the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department).

The Risk Management function operates independently and monitors the adequacy and effectiveness of policies and procedures, the level of compliance to those policies and procedures, in order to identify deficiencies and rectify. The Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

INVESTMENT COMMITTEE

An Investment Committee has been formed to ensure the implementation of a prudent investment policy and the monitoring of the provision of adequate investment services to Clients. The Investment Committee reports directly to the Senior Management.

The Investment Committee is responsible, inter alia:

a) to supervise the proper choice of investments (framework for investment decisions)

b) to analyze the investment potential and contribute to the elaboration of the investment policy, as applicable

c) to determine the Company's pricing policy

d) to decide upon the markets and types of Financial Instruments in which the Company shall be active

e) to determine the mode, content and frequency of the Client's briefing.

f) to brief the Internal Auditor, as applicable

to analyze the economic conditions and the investment alternatives based on a thorough examination of third-party reports

IV. RISK MANAGEMENT FRAMEWORK

The Risk management framework of the Company is currently as follows:

Leadership and Commitment:

The Board of directors and senior management ensures that the risk management is integrated within the Company's daily operations by

- ✓ approving the risk appetite statement,
- ✓ risk management arrangements and systems of financial and internal control are in place
- ✓ ensures that the necessary resources are allocated to the risk management in the Company, including assigning of responsibilities and accountability at appropriate levels.

Integration

The risk management is integrated in the Company' procedures in various ways, such as credit risk limits and monitoring of large exposures, monitoring of the capital adequacy ratios, execute compliance controls and implements IT and cyber security measures.

Design

Company's risk management framework is designed, taking into account external and internal environments.

For the external environment, the Company assess current and upcoming changes in regulation, macro - economical parameters in Europe and in other countries where is has exposures, such as the Russian Federation, technologic and political developments on international and Cyprus level.

External factors also include relations with external stakeholders, such as clients, regulators, service providers and business counterparties.

Internal factors, which are taking into account for risk management framework's design, are as follows: the Company's mission, vision and objectives; procedures and policies approved by the Board of Directors; resources of the Company, such as capital, people and IT systems; contractual commitments and interconnections with the group entities.

Based on the risk assessment of the external and internal environment, the Board of Directors regularly reviews the effectiveness of the Company's risk management arrangements and systems of financial and internal control.

These are designed to manage rather than eliminate the risks of not achieving business objectives, and - as such -offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regards to the Company's profile and strategy and an appropriate of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

Allocation of resources to implement the risk treatment plans, includes allocation of IT systems, documenting the processes and procedures, and provision of necessary training and professional development needs.

The support of the framework is provided by effective communication between all levels of the Company during daily operations and meetings of the Senior management. This report is also important part of this communication.

Implementation

The Company's systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and process for monitoring and reviewing their continuing effectiveness.

The decision-making is made in accordance with the hierarchy and reporting lines as depicted on the organizational chart.

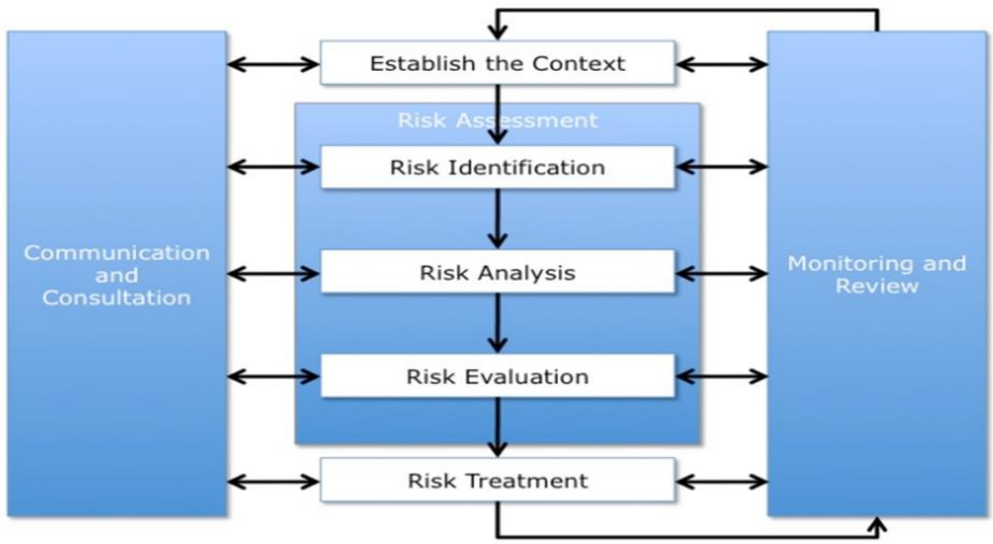
Evaluation and Improvement

The Company set procedures, such as annual report by the Risk manager, Compliance and Internal Audit functions and internal regular reports made by business departments. These reporting tools help the Board to ensure that they sufficient information and tools to evaluate the effectiveness of the risk management framework as described above, and make necessary adjustments to make certain that it remains adequate to the size and complexity of the Company' operations , and supports achievement of the Company's objectives.

This evaluation process helps to adapt the framework to ever changing external and internal changes and make necessary changed to the risk assessments and risk treatment plans.

Risk management process

The risk management process includes the following steps:



Each part of the process is customized to the specifics of the Company, so its suits to its internal and external environment, and they are iterative. It should be occurring at all times and in relation to all business activities.

Therefore, everyone has a responsibility to continually apply this process when making business decisions and when conducting day-to-day management.

Risk Governance - Lines of Defense

First Line of Defense - Senior Management

The Company's Senior Management reviews the written reports prepared by the Risk Manager, prior to the BoD, applies the Board decisions with respect to risk management and monitors whether all the Company's risk management procedures are followed.

Second Line of Defense- Risk Management

The Company has an established Risk Management Function (RMF) which has adequate authority, stature and resources to introduce appropriate and effective risk management policies covering the Company's management framework. The RMF is independent of the business lines whose risks are controlled, even though there is sufficient interaction to enable monitoring and collaboration.

It is the responsibility of RMF to ensure that effective risk management processes are in place, by being involved in all material risk management decisions. The RMF provides relevant independent information, analyses and judgement per type of risk, and guides risk related decisions and proposals made by the rest of the Company.

The scope of the RMF covers the identification, quantification, management, reporting and monitoring of risks. All risks are identified and analyzed both on a qualitative and quantitative perspective. In addition, the monitoring of risks from business units is also monitored and suggestions are provided on how to enhance it further.

The RMF assess the robustness, sustainability and applicability of the risk strategy and appetite. Furthermore, risk appetite is monitored in terms of appropriate translation into risk limits and metrics. It is within the scope of the RMF to raise flags when SM is not acting in line with the Company's risk appetite. The function, if deemed necessary, recommends enhancements to the risk management framework and corrective measures to remedy potential breaches of risk policies, procedures and limits.
Risk Manager

The Company shall retain a Risk Manager to coordinate the risk management function of the Company, consisting of necessary procedures, relating to risk management are in place. The Risk Manager shall report directly to the Board of Directors of the Company. Detailed duties and responsibilities, as well as the reporting requirements, are detailed further in this Manual.

Role of the Risk Manager

The Risk Manager's role is to:

- Implement policies on risk management and internal control.
- Identify and evaluate the fundamental risks faced by the Company

- Provide adequate information in a timely manner to the Senior Management on the status of risks and controls.

- Provide daily, weekly and monthly reports to the Senior Management, with details of the Company's total exposure across all instruments. These reports will include information about clients' positions and the positions opened by the Risk Management as part of its hedging activity.

- Undertake a quarterly review of effectiveness of the system of internal control and provide a report to the Senior Management.

Regulatory Compliance Officer

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy. To this end, the Board appoints a Compliance Officer in order to establish, implement and maintain adequate and effective policies and procedures, as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to put in place adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Senior Management and the Board of the Company.

The Compliance Officer is independent and has the necessary authority, resources, expertise and access to all relevant information. The objectives of the Compliance officer are:

- to prohibit the realization for the Customers of Company of any operations which may infringe the existing legislation
- to decrease the probability of appearance of any problem situations connected with any tax and legal limitations of the Customers of the Company
- to ensure compliance with the current and any new laws, regulations and directives at times issued by CySEC

Anti-Money Laundering Compliance Officer

The Board retains a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company.

Scope and objectives of the AMLCO:

- The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
- To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations
- To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing
- To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities

Third Line of Defense

Internal Audit Function

The Internal Audit Function (IAF) in the Company is independent, has sufficient authority, stature and resources. The IAF is following a risk-based approach to review and provide objective assurance of the compliance of all activities and units of the Company.

The IAF is not involved in the design, selection, establishing and implementation of control policies, procedures and risk limits. However, it should be noted that the SM requests feedback and suggestions when it deems necessary.

The scope of the function dictates the assessment of the governance framework and whether the current policies and procedures are adequate and compliant with the regulatory framework. In addition, the alignment of the relevant policies and procedures with the risk appetite and the strategy dictated from the BoD should also be evaluated.

The extent of the correct implementation of procedures as well as the adequacy, applicability and effectiveness of the controls introduced are evaluated by the IAF. The function does not only monitor the business units of the Company but also the Compliance, Anti-Money Laundering and Risk Management functions.

Reporting and Information Flow

The table below presents the Company’s description of the information flow on risk to the management body.

Table 2 . Information flow

Report Name	*Report Description*	*Owner*	*Recipient*	*Frequency*
Compliance Report	Annual Compliance Review	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Annual Internal Audit Review	Internal Auditor	BoD, CySEC	Annual
Risk Management Report	Annual Risk Management Report	Risk Manager	BoD, CySEC	Annual
Pillar III Report	Disclosure regarding the risk management, capital structure, capital adequacy and risk exposures of the firm	Risk Manager & Financial Controller	BoD, CySEC, Public	Annual
Financial Statements	Audited financial statements of the Firm	Financial Controller	BoD, CySEC	Annual
ICAAP Report	Assessment of the level of capital that adequately supports all relevant current and future risks of our business	Risk Manager & Financial Controller	BoD, CySEC (if requested)	Annual
Capital Adequacy Report	Capital requirement calculation	Financial Controller	Senior Management, CySEC	Quarterly

Directorships

According to Article 435(2a) of the CRR, companies shall disclose, at least on an annual basis, the number of directorships held by the members of the management body. In accordance with Section 9 of the Investment Services and Activities and Regulated Markets Law of 2017 (the "Investment Services Law"), the number of directorships which may be held by a member of the board of directors of a significant CIF, shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

We note that the Company is **not Significant** as defined by the current definitions by the regulator, thus the application of the above restriction is not applicable.

During 2018, the Company's Board of Directors was composed of five directors, one of the executive directors resigned and one was appointed subsequently, after CYSEC approval.

During these period Directors of the Company held the following directorships:

- 3 executive directors held 1 directorship[1].
- 2 non-executive directors held 2 directorships

Recruitment Policy

We note that currently the Company is not a Significant CIF, and it does not operate the Nomination and Remuneration Committee , thus the Board of Directors has the obligation to ensure that all organizational units of the Company are staffed by competent and skilled people. During the executive hiring process, the following hiring criteria are taken into consideration the morality and reliability (character) of the relevant person, the academic qualifications, the professional experience, possession of certificates of professional competence, where applicable and his/her potential to contribute to the business development of the Company. In accordance with the requirements set by the Guidelines GD-IF-01 ("Guidelines for compliance with the authorization and operating conditions of CIF – Persons employed by CIF"), key persons employed by a CIF, including individuals employed in managerial or other key control positions, must meet the following criteria:

- Good repute
- Skills, knowledge and expertise
- Relevant academic title or degree or professional qualification and relevant experience.

Training

During the year, the Company's employees and directors, attended courses on the applicable compliance legislation and its relevant procedures.

The Board is updated on a regular basis on changes to CySEC regulations. During the year all the Company's employees completed training designed by reputable providers, in accordance with the CySEC training requirements.

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[1] Executive or non-executive directorships held **within the same group** shall count as a single directorship, as per the provisions of the Investment Services Law.

Diversity Policy

The Company recognizes the benefits of having a Board that promotes diversity in its members. For the Company a diverse Board would effectively consist of Directors with a balanced set of different skills, experiences, background, race and gender. The Investment Services Law (Article 10 (2) (b) (ii)) requires institutions to set a target for the representation of the underrepresented gender in the BoD and the preparation of a policy on how to increase the number of the underrepresented gender in the BoD to achieve this target. The target, policy and their implementation shall be made public.

At the date of this Report, the BoD has set the above-required policy and aspires towards Board composition in which the underrepresented gender comprises of at least one-third of the independent directors, even though no female member is currently appointed to the BoD.

V. RISK AND CAPITAL REQUIREMENTS

In accordance with the CRD IV framework, the following are the three pillars in respect to capital:

- Pillar 1 requires the Company to establish minimum capital requirements.
- Pillar 2 requires the Company to assess whether its Pillar 1 capital is adequate to meet risk exposures and to calculate the amount of capital that should be held against those exposures. This process forms the basis of the Internal Capital Adequacy Assessment Process ("ICAAP"), required by CySEC.
- Pillar 3 requires the Company to publicly disclose specific information about the underlying risk management controls and capital position.

The Supervisory Review Process ("SREP") provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures.

Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company. Pillar II connects the regulatory capital requirements to the Company's ICAAP and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk. The Company has an ICAAP process for calculating its capital requirements under Pillar 2.

The Company held an internal risk assessment exercise in 2018 in respect to the year ended 31 December 2017, which was approved by the Board. Within its ICAAP the Company performed sensitivity analyses and stress testing scenarios, considering all material risks.

The ICAAP is reviewed and updated annually.

Stress Testing Framework

As part of its risk assessment and measurement process, the Company has performed a number of stress tests to evaluate the impact of extreme events on its financial position, performance and capital adequacy.

Risks and Mitigating Controls

The policies of the Company for managing, hedging and mitigating risks are described below along with the strategies and processes for monitoring the continuing effectiveness.

Credit Risk

Credit risk is the risk that the Company may suffer losses, because of customers and/or counterparties defaulting on their contractual obligations. To limit credit risk, the Company performs due diligence prior conducting business with potential counterparties. Due diligence is also conducted on an ongoing basis, according to the due diligence policy. The Company also reviews and examines periodically the credit ratings of the institutions and limits its assets according to the perceived risk of the institutions. Further to the above the Company has policies to diversify risks and to limit the amount of credit exposure to any counterparty.

Counterparty Credit Risk

Counterparty credit risk (CCR) is the risk that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. This may be a risk to the company, due to the holding of large amounts with counterparties, which might default and result in loss of some/ all of the balances, with no securities against these balances. In order to mitigate CCR the Company performs due diligence and risk checks, as described in the previous section.

There is also counterparty risk on some type of Clients, which is a more diversified risk. Customers may experience negative balances, which the Company cannot recover. The Company mitigates this risk via strict limits policies, trading strategies such as DVP settlement clauses, and credit assessment of the clients in individual clients.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events.

The following list presents some event types, included in operational risk, with some examples for each category:

- Internal Fraud: misappropriation of assets, embezzlement, bribery.
- External Fraud: theft of information, hacking damage, third-party theft and forgery.
- Employment Practices and Workplace Safety: discrimination, workers compensation, employee health and safety.
- Business Disruption & Systems Failures: utility disruptions, software failures, hardware failures.
- Execution, Delivery, & Process Management: data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

Market Risk

Market risk is the potential for loss resulting from unfavorable market movements, which would potentially affect the Company's profitability. The below risks are partially mitigated by hedging exposures exceeding the risk appetite of the firm. Limits per risks are set by the Risk function and approved by the board.

Market risk arises mainly from the following, all of which are summarized below:

- Foreign exchange risk
- Commodity risk
- Equity risk
- Interest rate risk

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Furthermore, foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the Company's functional currency. In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms. The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of loss to a particular currency pair as well as through the utilization of sensitivity analysis (e.g. Value at Risk).

Commodity Risk

Commodity Risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities. Commodity risk refers to the uncertainties of future market values, caused by the fluctuations in the prices of commodities.

Equity Risk

Equity risk is the risk that the price of one's equity investments will depreciate due to factors relating to the equity's issuer or to a broad equity market movement.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates.

Funding Liquidity Risk

Liquidity risk may emerge in the form of insufficient liquid assets to meet liabilities as they fall due. The risk may materialize due to a mass exodus of clients resulting in large number of withdrawals, account closures and decrease in trading volumes. Another source of liquidity risk is liquidity providers increasing their margin requirements, during periods of high market volatility, requiring additional funds. Inability of matching the margin requirements will result into closure of open positions and inability to hedge effectively.

During the year, the Company had sufficient liquid assets to meet its liabilities. In addition, liquidity is monitored on a continuous basis to ensure that potential droughts of liquidity will be proactively identified.

Regulatory - Money Laundering and Terrorist Financing Risk

Money laundering is the process of taking the proceeds of criminal activity and making them appear legal. Terrorist financing involves using the funds obtained from various businesses, including non-profit organizations or unregistered money services businesses, to fund terrorist activities. As an internet-based financial services provider, the Company is continuously exposed to the risk that a customer's trading account may be used as a mean to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks.

Regulatory   Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company to financial loss, fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced Company value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

The Compliance Monitoring Program ("CMP") of the Company covers on the following business departments and their various functions. The Comliance Officer uses various monitoring techniques. Upon the performance of those monitoring techniques, the Compliance Officer assesses the risk level of the finding and provides recommendations on the areas that need improvement. The recommendations are first submitted to the management of the respective departments and once feedback on these recommendations is received, these are then submitted to the Board for review.

The Company via the supervision applied by the Compliance Officers, as well as the monitoring controls and systems applies compliance risk.

Business Risk

Business Risk is the risk stemming from underperformance of economic results, failure to increase or retain market share, meet business goals due to lack of business direction, planning and leadership that may cause inadequate profits or result in losses to the Company.

Business risk is influenced by volume of trades, high costs, competition, and overall economic climate and government regulations.

The Company is exposed to Business Risk mainly due to a potential decrease in the number of active investors and volume they trade that may lead to a reduction in the Company's profits. Another business risk is the introduction of new products, which on the one hand, can create opportunities, whereas, on the other hand can result in negative returns on the investment. Additionally, the company acknowledges that business risks could be triggered by numerous factors, which may also be correlated with both regulatory and cross border risks as well as reputational risks.

Policies and procedures are in place to mitigate the business risks, including the regular monitoring of Company's Budgets (considering the overall economic conditions) and continuous support upon additional capital requirement by the parent company. In addition, every introduction of a new product is subjected to a detailed risk analysis and approval by the Risk Management and ICAAP steering Committee and Board.

Group Risk

Group Risk could occur as adverse impact due to relationships (financial or non-financial) of the Company with other entities in the group. The company is reliant on certain services from other entities of the Group including the parent company and has significant holdings in the group companies. Lastly the reputation of the group overall, as well as the members of the group are highly correlated with the reputation of Solid Financial Services Ltd.

Management ensures independence between entities to minimize impact of any regulatory or reputational events in other group operations. In the event of group structure change (i.e. new companies added to the Group) the Board, the Risk Management and ICAAP Steering Committee and the Risk Manager consider and analyze the risks under such a structure in relation to regulatory, reputational, credit and operational risk.

Reputation Risk

Reputation risk is the risk that an adverse perception of the image of the Company by its clients, counterparties, shareholders, investors or regulators may impact earnings and capital. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor client service, fraud or theft, client claims, legal action, regulatory fines and from negative publicity relating to the Company's operations whether such fact is true or false.

The Company has policies and procedures in place when dealing with possible client complaints to provide the best possible assistance and service under such circumstances.

VI. OWN FUNDS

Capital Management Risk is the risk that the Company will not comply with capital adequacy requirements or may not be able to continue as a going concern. The primary objective of the Company with respect to capital management is to ensure that the Company complies with the imposed capital requirements of the CRR with respect to its own funds and that the Company maintains strong capital ratios to support its business, to maximize shareholders' value and to optimize its debt and equity balance. In this respect, the Company must have own funds which are always more than its minimum capital requirements.

CySEC and the CRR require every CIF to maintain a minimum ratio of capital to risk weighted assets ("RWAs") of 8% plus capital buffers. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total RWA. During 2018, the Company has been operating under CRD IV (Basel III Framework) Legislation. From 1 January 2016, as per DI144-2014-14 of the CySEC for the prudential supervision of investment firms (the 'Directive'), CIFs are required to maintain capital buffers in addition to the own funds requirements imposed by Article 92 of the CRR. CySEC may impose additional capital requirements for risks which are not covered by Pillar I of Basel III. The Company reported its capital adequacy on a quarterly basis during 2018 in accordance with the CAR obligations to CySEC.

The Senior Management as well as the Risk Manager monitor such reporting and have policies and procedures in place to assist in meeting the specific regulatory requirements. This is achieved through the preparation (on a monthly basis) of management accounts to monitor the financial and capital position of the Company. The Company manages its capital structure and makes adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

The Central Bank of Cyprus (“CBC”), acting as the designated macroprudential authority of Cyprus, has set the following macroprudential capital buffers:

a) Capital Conservation Buffer (the ‘CCB’)[2]

b) Institution-specific Countercyclical Capital Buffer (the ‘CCyB’)[3]

c) Other systemically important institutions buffer (the ‘O-SII buffer’)[4]

The capital buffers mentioned above, apply to all CIFs which are authorized to provide the investment services of dealing on own account and/or underwriting of financial instruments and/or placing of financial instruments on firm commitment basis, with ultimate objective to conserve the CIF’s capital. When a CIF breaches the buffer, automatic safeguards kick in and limit the amount of dividend and bonus payments a CIF can make. The larger the breach of the buffer, the stricter the limits become. Form-144-14-06-9 (Calculation of own funds and capital ratio) is amended by CySEC as applicable. The abovementioned capital buffers have been taken into consideration during the ICAAP capital planning.The Company has met its capital requirement as of 31 December 18, taking into consideration the above legislation. The principal forms of Tier 1 capital include:

- Share capital and share premium:
    - Share capital comprises of fully paid ordinary shares.
    - Share premium arises from the issue of ordinary shares at a value above the nominal value.
- Retained earnings and other reserves

There was no Tier 2 capital as of 31 December 2018 and 2017.

<u>Reconciliation of Regulatory Capital with Equity as per audited Financial Statements</u>

The following table provides a reconciliation between the balance sheet presented in the audited Financial Statements and the balance sheet prepared for prudential purposes.

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[2] For 2018 CCB consists of Common Equity Tier 1 capital (“CET1”) equal to 1.875% of the total of the risk-weighted exposure amounts, calculated in accordance with Article 92(3) of CRR.

[3] The Company is exempted from maintaining a CCyB rate in 2018 and 2017, which was set at 0%. The relevant list of exempted entities is indicated in the link below: https://www.centralbank.cy/en/financial-stability/macroprudential-policy-decisions/countercyclical-capital-buffer-ccyb

[4] During 2017 and 2018 the Company was not designated as an O-SII.

Table 3. Reconciliation table

Regulatory Own Funds	*At 31 December 2018(USD 000)*
Share Capital and Share Premium	322
Retained Earnings	2,857
Other reserves	
Capital note	
Total Equity as per audited Financial Statements	**3,179**
Regulatory deductions: ICF / Intangible Assets	-120
Equity instruments transferred to Additional Tier 1	
Total Common Equity Tier 1 (CET1)	**3,059**
Additional Tier 1 Capital	0
Total Tier 1 Capital	**0**
Tier 2 Capital	**0**
Total Own Funds	**3,059**

Deductions from Own funds:

The Company, in accordance with Article 36 of the CRR, deducted from CET1 capital the amount of USD120,000 representing

- the Investors Compensation Fund ("ICF") contributions, as per Circular C162 of the CySEC dated 10 October 2016 and
- Intangible Assets.

CRD IV Regulatory Capital

The following table has been prepared using the format set out in Annex VI of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards with regards to disclosure of own funds requirements for institutions according to the CRR.

Table 4. Own Funds itemized

Own Funds items	***At 31 December 2018 (USD 000)***
Capital Instruments and the related share premium	322
Retained Earnings	2,857
Other Reserves	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	3,179
Common Equity Tier 1 (CET1) capital: regulatory adjustments – Investor Compensation Fund;	115
Common Equity Tier 1 (CET1) capital: regulatory adjustments – Intangible assets	5
Total regulatory adjustments to Common Equity Tier 1 (CET1)	120
Common Equity Tier 1 (CET1) capital	3,059
Additional Tier 1 (AT1) capital	0
Tier 1 Capital (T1=CET1 + AT1)	0
Tier 2 Capital	0
Total capital (TC=T1+T2)	3,059

COMPLIANCE WITH MINIMUM CAPITAL REQUIREMENTS

As indicated in Section Own Funds of the Report, it is the primary objective of the Company to maintain strong capital ratios and the minimum capital requirements. The Tables below present the minimum capital requirements and the respective risk weighted exposures, calculated under CRR as at 31 December 2018 and 2017. The risk-weighted exposures that form the denominator of the risk-based capital ratio are presented below. Minimum capital requirements are calculated as 8% of the risk-weighted exposures.

Table 5. Capital requirements

Risk Weighted Assets	*At 31 December 2018 (USD 000)*
Credit Risk (including CVA)	2,217
Market Risk	5,977
Operational Risk	2,017
Excess of Large Exposure limites in Trading Book	1,482
Total Risk Weighted Assets	**11,693**
Capital Ratios	
Common Equity Tier 1 (CET1)	**26,16%**
Tier 1	**26,16%**
Total Capital	**26,16%**

Table 6. Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement) of which

Buffers	*At 31 December 2018 (USD 000)*
Capital Conservation Buffer (CCB)	**191**
Other Systemically Important Institution (O-SII) buffer	**0**
Countercyclical buffer	**0**
Systemic risk buffer	**0**
Common Equity Tier 1 available to meet buffers	**2,672**

Credit Risk

The Standardized Approach was applied to calculate the minimum capital requirement in Accordance with the requirements laid down in Article 92 of the CRR as shown in the table below. Minimum capital requirements are calculated as 8% of the RWAs.The tables below present the risk weighted exposures (after mitigation) and the respective capital requirements at exposure class level as of 31 December 2018.

Table 7. Risk weighted exposures (after mitigation) and the respective capital requirements at exposure class level as of 31 December 2018

Exposure Class	Risk weighted Exposure
Institutions	14
Corporate	1,854
Items with particular high risk	261
Other Items	60
Total	**2,189**

Counterparty Credit Risk

The firm uses the Mark-To-Market methodology, measuring of the fair value based on quoted prices in active markets or observable inputs, to calculate its Counterparty Credit Risk.

Table 8. Counterparty Credit Risk

Risk Weighted Exposure	31 December 2018 (USD 000)
Credit Risk	**2,217**
CCR	**0**
Total	**2,217**

EXPOSURE TO CREDIT RISK

The Company's exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position.

Past due and Impaired Receivables

This section provides a description of past due and impaired exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors ("CCF")) and provisions for impairment.

A provision for impairment of trade and other current receivables is established when there's objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or delinquency in payments, are considered as indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced with an allowance account and the amount of loss is recognized in the profit and loss. When a trade or other current receivable is uncollectible it is written off against the allowance account for trade and other current receivables.

A financial asset is past due when a counterparty fails to make a payment that is contractually due. As at 31 December 2018 and 2017, there are no exposures that are past due.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 Financial Instruments ("IFRS 9") that replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. Based on the Company's assessment the implementation of IFRS 9, the introduction of IFRS 9 has no material impact on the results of the Company.

Total and average amount of exposures

The table below presents the total and average amount of net exposures for the year ended 31 December 2018, broken down by exposure class. The table includes exposure classes that are relevant to the Company's activities. The average net exposure corresponds to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of CCF.

Table 10. Total and average amount of exposures

Exposure Class	**2018**	
	Net risk weighted Exposure 2018	**Average Net Exposures 2018**
Institutions	14	596
Corporate	1,854	4,178
Items with particular high risk	261	310
Other Items	60	32
Total	**2,189**	**5,115**

Breakdown of exposures by geographical areas and exposure classes

The table below shows the geographic distribution of the exposures, broken down in significant areas by material exposure classes that are relevant to the Company, as at 31 December 2018 and 2017. The net value of exposures relates to amounts post value adjustments but before the application of CCFs. The geographical area in which the exposure class is classified is driven by the country of residence/incorporation of the counterparty.

Table 11. Breakdown of exposures (ORIGINAL EXPOSURE VALUE) by geographical areas and exposure classes

2018	**Geographic Area**	
Exposure Class	**EU Countries**	**RU**

	(USD 000)	(USD 000)
Institutions	79	0
Corporate	0	3446
Other Items	60	0
Items with particular high risk	174	0
Total	**313**	**3,446**

Net exposures by residual maturity and exposure classes

The table below shows the net exposures by residual maturity and exposure classes as at 31 December 2018. The net exposures relate to amounts post value adjustments but before the application of CCFs.

- Exposures classified with maturity of less than 3 months include all counterparties with maturity less than 3 months.
- Exposures classified with maturity of more than 3 months include Rolling Reserves and Trade and other prepayments

As at 31 December 2018, most of the Company' exposures had residual maturity of less than 3 months.

Table 12. Net risk weighted exposures by residual maturity and exposure classes

2018	**Residual Maturity**	**Residual Maturity**
Exposure Class	**<3 Months**	**>3 Months**
Institutions	14	0

Corporate	1,854	0
Items with particular high risk	261	0
Other Items	45	15
Total	**2,174**	**15**

Net exposures by industry type and exposure classes

The table below shows the net exposures by industry type and exposure classes as at 31 December 2018. The net value of exposures as at 31 December 2018 is presented below.

The net exposures relate to amounts post value adjustments but before the application of CCFs.

Table 13. Net risk weighted exposures by industry type and exposure classes

2018	***Financial***	***Non-Financial Sector***
Exposure Class	Sector	
Institutions	14	0
Corporate	1854	0
Items with particular high risk	261	0
Other Items	0	60
Total	**2,129**	**60**

Market Risk

The minimum capital requirement calculated under the Standardized Approach in accordance with Title IV: Own funds requirements for Market Risk of the CRR are exclusively related to, foreign exchange risk, commodity risk, equity risk and traded debt securities.

The table below shows the capital requirements and the respective risk weighted exposures as at 31 December 2018, for each type of market risk, as discussed in above in these Disclosures.

Table 9. Market Risk

Types of Market Risk	**31 December 2018 (USD 000)**	
	Capital Requirement	**Risk Weighted Exposure**
Foreign Exchange Risk	220	2,748
Commodity Risk	-	-
Equity Risk	96	1,202
Trade Debt instruments	162	2,027
Total	**478**	**5,977**

Large Exposure Risk –Trading Book

The CRR defines large exposures are exposures to clients or groups of connected clients where its value is equal or exceeds 100 % of the eligible capital of the institution. As at 31 December 2018 there were large exposures that exceeded the relevant limits, hence additional capital was allocated to cover the risk.

Operational Risk

For the calculation of operational risk in relation to the capital adequacy returns, the Company uses the Basic Indicator Approach (“BIA”). Under the BIA, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. The three-year average is calculated based on the last three twelve-monthly observations at the end of the financial year.

Based on the relevant calculations in the Company's capital requirements, the figure calculated shows that the Company's capital requirement due to operational risk as at 31 December 2018 was 2,017 thousand USD.

VII. USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTION AND CREDIT AGENCIES

The firm obtains information on credit ratings of counterparties from the agencies listed below. The credit agencies are used with the order of indicated below:

1. Moody's Investor Services
2. Standard & Poor's Rating Services
3. Fitch Ratings

The Company applies the mapping of each credit assessment of the eligible ECAIs into the Credit Quality Steps ("CQS") as it is prescribed by the CRR. The Company applies credit assessments of ECAIs for all exposure classes including Institutions, Corporates and Other Items, as described below.

Exposures to Institutions:

As per the CRR/CRD IV, for exposures to Institutions, the Company applies the "Institution Based Approach" instead of the "Government Based Approach", for determining its capital requirements.

Therefore, to determine the risk weight that applies for exposures to Institutions (corresponding Credit Quality Step ("CQS")), the Company uses the specific credit rating of the Institutions itself instead of the credit rating of the Central Bank of the jurisdiction in which the Institutions is incorporated. When the Institutions is unrated, the Company use the credit Rating of the Central Government of the Country in which the institution is incorporated.

As at 31 December 2018, most of the exposures to Institutions had a residual maturity of less than 3 months. All the short-term exposures to Institutions, except of two, were rated at least A-, either because this was the credit rating of the Institution itself or the credit rating of the corresponding central bank of the jurisdiction in which the Institution is incorporated. As a result, a 20% risk weight was used for all such exposures (CQ1+CQ2).

Exposures to Corporates:

During 2018, the exposures to Corporates were not included in "member state" nor in "equivalent third country" list. As a result, a 100% risk weight was used for unrated exposures, as the Government based approach is not applicable.

Exposures to Other Items:

The Other Items exposure class includes plant, property and equipment. As a result, a risk weight of 100% was applied to all exposures to Other Items.

The table below shows the breakdown of the Company's exposures as at 31 December 2018 by CQS, before credit risk mitigation.

Table 14. Breakdown of the Company's original exposures as at 31 December 2018 by CQS, before credit risk mitigation

Asset Class	CQS 1	CQS 6	Unrated	Total
Institutions		14	64	78
Corporate	-	739	754	1,493
Items with particular high risk	-	174		174
Other Items	-		60	60
Total		**927**	**878**	**1,805**

Table 15. Breakdown of the Company's original exposures as at 31 December 2018 by CQS, after credit risk mitigation

Asset Class	CQS 1	CQS 6	Unrated	Total
Institutions	64	14		78
Corporate	-	739	754	1,493
Items with particular high risk	-	174		174

Other Items	-		60	60
Total	**64**	**927**	**814**	**1,805**

VIII. LEVERAGE RATIO

Leverage Ratio Definition

A minimum ratio of Tier 1 capital to total assets of 3% is tested. In accordance with Article 429 of the CRR, the leverage ratio is calculated as the Company's capital measure divided by the total exposure measure and is expressed as a percentage. Leverage ratio is calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. As per the CRR, the leverage ratio is calculated using two capital measures:

- Tier 1 capital (fully phased-in definition): Tier 1 capital without considering the CRD IV derogations.
- Tier 1 capital (transitional definition): Tier 1 capital when considering the CRD IV derogations.

$$\text{Leverage ratio:} = \frac{1\ \text{Capital Measure (Tier 1 Capital)}}{2\ \text{Exposure Measure (Total Assets)}} >= 3\%$$

Management of Excessive Leverage

The Company has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. The Financial Controller monitors the leverage ratio and reports to the Operational Risk Committee of any breaches of Capital adequacy requirements. The Company amongst other, performs testing of leverage resilience under stress conditions by running multiple stress tests under different scenarios as part of its ICAAP annual procedure.

Leverage ratio

As at 31 December 2018, the Leverage ratio of the Company was equal to 169%, which is above the minimum required 3% limit.

IX. REMUNERATION POLICY AND PRACTICES

Remuneration System & Policy

The principles employed within the Company's Remuneration Policy shall be appropriate to its size, internal organization and the nature, the scope and the complexity of its activities whilst adhering to the provisions of the CRR and MIFID2 legal framework.

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, consequently the Senior Management, members of the Board and the Heads of the departments (thereafter "'executive management').

The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long-term success. The remuneration mechanisms in place are well known management and human resources tools that consider the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The remuneration system considers the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

Fixed and Variable Remuneration

The total remuneration of staff currently consists of the fixed component, and varies across the various employees' positions/roles, functional requirements, educational level, experience, accountability, and responsibility for the performance of the relevant role.

The fixed component of the remuneration is stated on the employment contract and it is reviewed annually and also considers standard market practices.

The determination of the fixed remuneration lies with the Board and Directors, in regard to the remuneration of senior staff.

Aggregate Quantitative Information

The details of remuneration for 2018 of all members of staff whose professional activities have a material impact on the Company's risk profile expressed in thousand USD are as shown below:

Table 16. Remuneration of risk-takers

2018	Fixed Remuneration (€000)	Variable Remuneration (€000)	Deferred Remuneration (€000)	Total number of staff
Executive and Non-Executive Directors	95	Not applicable	-	5
Other Key Management Personnel	75	Not applicable	-	5
Total	**170**	**Not applicable**	-	**10**

During 2018, variable remuneration was not paid as discussed above.

X. APPENDIX I: GLOSSARY

AML	Anti-Money Laundering
AMLF	Anti-Money Laundering Function
BIA	Basic Indicator Approach
BOD	Board of Directors
CBC	Central Bank of Cyprus
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CF	Compliance Function
CFD	Contact for difference
CIF	Cyprus Investment Firm
CMP	Compliance Monitoring Program
CQS	Credit Quality Steps

CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
CYSEC	Cyprus Securities and Exchange Commission
ECAI	External Credit Assessment Institutions
EU	European Union
IAC	Internal Audit Committee
IAF	Internal Audit Function
ICAAP	Internal Capital Adequacy Assessment Process
IT	Information Technology
NDF	Non-deliverable forwards
NOP	Net Open Position
O-SII	Other Systemically Important Institutions
ORC	Operations Risk Committee
OTC	Over the Counter
P&L	Profit and Loss
RMC	Risk Management Committee
RMF	Risk Management Function
RWA	Risk Weighted Assets

SA	Standardised Approach
SFT	Securities Financing Transactions
SM	Senior Management
SREP	Supervisory Review Process
TRC	Trading Risk Committee
VaR	Value at Risk