Notesco Financial Services Limited

Disclosures in accordance with Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

As of 31 December 2023

30 April 2024

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1. INTRODUCTION

1.1. Corporate Information

Notesco Financial Services Limited (hereinafter the "Company" or "Notesco FS") is an investment firm authorized and regulated by the Cyprus Securities and Exchange Commission ("CySEC") under CIF license number 125/10, obtained on 16 November 2010. The Company was incorporated in Cyprus on 12 January 2010 under the Companies Law, Cap. 113, as a limited liability company identified by registration number HE260651 and LEI Code 5493001Y4VOVDB4P8340.

The CIF license of the Company permits it to provide investment and ancillary services. Investment services include the reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients, dealing on own account and portfolio management. In particular, the Company offers its clients with direct access to the global over the counter ("OTC") market. All of the trading products that are offered are contracts for difference ("CFDs"), which include CFDs on forex, shares, indices, commodities and futures. Regarding permissible ancillary services, these consist of safekeeping and administration of financial instruments, granting credits or loans to 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, and investment research and financial analysis. Notesco FS is categorized as a Class 2 Investment Firm, in accordance with the IFR prudential framework.

As of 20 March 2023, and after CySEC approval, the obligation for consolidated supervision reporting ceased and the Company is since subject to solo supervision. As such, the present Disclosures document is prepared on a solo basis. In addition, the Company considers that it is subject to Class 2 prudential requirements at the solo level as well.

The subsidiaries of Notesco Financial Services Limited as at 31 December 2023 and their country of registration are enlisted below:

- IRONFX Global NZ Limited – New Zealand (non-operational)
- IRONFX Global (Ukraine) LLC – Ukraine (non-operational)
- IRONFX Global (Russia) LLC – Russia (non-operational)
- IRONFX Global Japan Limited – Japan (non-operational)

The Company meets the criteria set out in Article 32 (4) a) of the IFD regarding the size of its on and off-balance sheet assets, it is not required to disclose its investment policy in accordance with Article 52 of the IFD and has elected not to.

The information presented within this report is expressed in thousands of US Dollars ("US$") unless otherwise indicated.

1.2. Regulatory Framework – Overview

The capital adequacy and overall risk management requirements that the Company had been subject to under the CRR and CRDIV prudential framework, have been replaced by amended prudential rules established by the EU Regulation 2019/2033 ("Investment Firm Regulation" or "IFR") and the EU Directive 2019/2034 ("Investment Firm Directive" or "IFD"). The latter has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021), and all such legislative documents have become applicable on the 26th of June 2021. The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their Capital Adequacy ratio and are considered to more appropriately reflect the specific risks faced by investment firms rather than banks, which continue to apply the Basel (CRRII / CRDV) rules.

The IFR/IFD framework consists of three mutually re-enforcing pillars, as set out below:

- Pillar I defines the minimum regulatory capital requirements that are required for specified key risks, using prescribed quantitative methodologies.
- Pillar II covers the Supervisory Review & Evaluation Process ("SREP") that is conducted in relation to an investment firm's Internal Capital Adequacy and Risk Assessment ("ICARA") process, by which the investment firm assesses the adequacy of its internal capital and evaluates the extent to which additional capital needs to be put aside against material risks that may not be sufficiently covered in Pillar I.
- Pillar III (Market discipline) covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management, and internal control processes.

This Pillar III Disclosures Report sets out both quantitative and qualitative information in accordance with the IFR/IFD Framework and related guidance issued by the European Banking Authority ("EBA").

1.3. Frequency and Means of Disclosures

The Company publishes its Pillar III Report on an annual basis, with additional updates being made in the case where significant changes to its business occur.

The Company's Pillar III Disclosures for the year can be found at:

- https://www.ironfx.eu/en/ironfx/legal-documents

1.4. Verification

The Disclosures are approved by the Board of Directors (the "Board" or "BoD") of the Company annually. Moreover, the external auditors of the Company, provide limited level of assurance on the fair presentation of the disclosures annually as well.

1.5. Post-Reporting Period Events

Operating environment note:
The economic environment in 2023 and over the medium term is subject to a high degree of uncertainty, with the continuation of the war in Ukraine, Israel-Gaza conflict, rising tensions in US-China relations, high inflation and high interest rates threatening a significant slowdown in the global economy.

Cyprus' risk profile has improved significantly, but substantial risks remain in the domestic environment and in the external environment on which it depends.

Israel – Gaza conflict
The Israel-Gaza conflict has escalated on 07 October 2023, with the launch of a major attack by Hamas. There might be a significant exposure and economic uncertainty for entities with operations, subsidiary entities or investment in the war area. Other entities, which do not have a direct exposure with the war area might also be indirectly affected by the negative global economy and global trade impact that arise due to the war.

Russia – Ukraine conflict
The conflict between Russia and Ukraine continues to be highly unstable. The tension in the region impacted the Russian and global economies negatively and resulted to ongoing political tensions and international sanctions against certain Russian companies and individuals. The sanctions imposed restricted the parties from having access to foreign financial markets, including removing access of several Russian banks to the international SWIFT system.

The EU, UK and US (amongst others) have also imposed sanctions against the Russian central bank, restricting the access of the Russian state to foreign currency reserves, and introduced further asset freezes against designated individuals/entities and sectoral sanctions.

The situation is still evolving and further sanctions and limitations on business activity of companies operating in the region, as well as consequences on the Russian economy in general, may arise but the full nature and possible effects of these are unknown.

Management believes that it is neither significantly impacted from the Israel-Gaza nor the Russia-Ukraine conflict, as its operations are not affected by the situation, therefore are reasonably well positioned to withstand volatility and economic uncertainties that may arise from the geopolitical and global economic environment. Management will continue to monitor the situation closely and assesses appropriate actions when, and if, needed.

1.6. Environmental, social and governance risks

In accordance with Article 53 of the IFR, as from 26 December 2022, the Company shall monitor the average size of on and off-balance sheet assets with a view to disclose relevant information on environmental, social and governance risks, including physical risks and transition risks. As at 31 December 2023 the Company meets the criteria under Article 53, thus does not require to disclose any further information regarding the abovementioned risks.

2. GOVERNANCE ARRANGEMENTS

The Company has established risk management procedures ensuring proper consideration of risks and important matters to the Company.

2.1. Diversity policy

The Company embraces diversity as it recognizes the benefits of having a diverse Board which makes use of differences in the skills, experience, knowledge, background, race and gender between Directors.

When recruiting members for the Board, diversity is seriously taken into account for forming the optimal composition of the Board. A balance of these differences is considered when determining the optimum composition of the Board, without jeopardizing the best interests of the Company.

In accordance with Article 10(2)(b)(ii) of the Investment Services and Activities and Regulated Markets Law 87(I)/2017 (the "Investment Services Law" or the "Law"), the setting of a target for the representation of the underrepresented gender in the Board of Directors and the preparation of a policy on how to increase the number of the underrepresented gender in the Board in order to meet that target is required. The Company recognizes the aforementioned target and takes it into consideration when assessing the need for Board diversity and has adopted a Suitability and Diversity Policy. Currently, no female directors are members of the Board.

2.2. Risk Management Committee

The Company's Risk Management Committee is an independent unit that reports directly to the Board of Directors, and is responsible in assisting the Board with the following:

- Assessing and managing the Company's risks.
- Ensuring the adequacy and effectiveness of controls in place for managing the risks.
- Reviewing the applicable risk limits and recommending amendments, if required, to the Board.
- Identifying additional risks that the Company is exposed to.
- Addressing control failures and suggesting remedial action.

As of 31 December 2023, the Risk Management Committee of the Company, acting on behalf of the Board, was comprised of the Company's Executive Directors, the Head of Dealing, and the Risk Manager and had formally met seven times during 2023.

2.3. Number of Directorships held by members of the Board

As per the Investment Services Law, the number of directorships which may be held by a member of the Board of Directors at the same time shall take into account individual circumstances and the nature, scale and complexity of the CIF's activities. As per the Investment Services Law, unless representing the Republic of Cyprus, members of the board of directors of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

a) one executive directorship with two non-executive directorships;
b) four non-executive directorships.

Notesco Financial Services Ltd is not a significant CIF and these rules are therefore not applicable. The Company regularly monitors the threshold which determines a significant CIF and will act if the threshold is breached.

In accordance with the Law, executive or non-executive directorships held within the same group shall count as a single directorship. Furthermore, executive or non-executive directorships held within institutions which are members of the same institutional protection scheme, provided that the conditions set out in Article 113, paragraph (7) of Regulation (EU) No 575/2013 are fulfilled or Undertakings (including non-financial entities) in which the CIF holds a qualifying holding, are also considered as a single directorship.

The Board of Directors of the Company as at 31 December 2023 consisted of two (2) Executive Directors and two (2) independent Non-Executive Directors.

As of 31st December 2023, Notesco Financial Services Board members held the following directorships, in compliance with the provisions of the Investment Services Law:

No	Position	Executive Directorships	Non-Executive Directorships
1	Executive Director	1	-
2	Executive Director	1	-
3	Non-Executive Director	-	2
4	Non-Executive Director	-	2

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk taking constitutes a major business characteristic of the Company, and the development of a robust risk management framework is considered of high importance. The identification and classification of risks begins from the definition of the vision and business objectives, which clearly provide guidance and direction, defining the approach that the Company adopts in order to successfully confront and respond to different risks inherent in its operations and functions.

3.1. Risk Management Framework and Governance

Risk Management Policy

The Risk Management Policy aims to elucidate the approach taken by the Company towards the risks confronted by the Company and the principles guiding its approach. The Risk Management Policy refers to the risks confronted by the Company and the strategies employed for their mitigation or elimination. Importantly, the approach of the Company's management and the resulting policy adopted regarding the issue of risk, is exemplified throughout this Report.

Risk Management Function and organizational structure

The Company is governed by the Board of Directors and has also established the Risk Management Committee. In addition, the Company has a Risk Manager who is responsible to monitor the Company's risk exposures and report to the Risk Management Committee and to the Board of Directors. The objective is to strengthen the Company's internal control system and reinforce a sound and robust corporate governance framework.

Furthermore, to support the best oversight of the Internal Control System, the Company has set up a Risk Management Function, Compliance and Anti-Money Laundering Function, and an Internal Audit Function, where the latter is outsourced to a qualified specialist.

Risk Appetite Statement

The Company ensures that it manages to pursue its strategic and business objectives while monitoring the risks to which it is exposed, so that they are within the predefined risk appetite/tolerance levels. The risk appetite of the Company is the result of its ICARA process. Each identified specific risk is classified into its general risk category and risk type, and is assigned a risk profile (Low/Medium/High), based on the overall score received after quantification of the specific risk. The specific risk is quantified by considering its expected impact and its likelihood of occurrence.

This process is implemented to assure the Board that the Company currently operates, and will continue to operate, within its current and future aggregate risk limit as represented by its current and projected Internal Capital. In case that the aggregate risk limit is expected to exceed the Company's expected risk tolerance (as represented by its projected regulatory own funds), the Board plans ahead by securing the injection of additional capital and/or the establishment of additional risk controls. Key figures are provided in the capital management section, providing external stakeholders with a comprehensive view of the Group's management of risk.

The Company has also harmonized its Regulatory Reporting requirements by adopting the transition from Credit Risk, Market Risk and Operational Risk into the new risk categorization under the IFR / IFD framework, that of the K-Factor requirements which aims to better capture the risks posed to customers, the market and the Company itself, while continuing to manage the above risk categories. The management of all risks that are significant to the Company, are discussed below.

3.2. Primary Risks

The IFR/IFD prudential framework introduces a differentiated classification and quantification of the main risks that investment firms can be subject to, which is labelled as "K-Factors" (Article 15 of the IFR). It relates to a set of risk factors tailored to the business of investment firms and determines the minimum capital requirement in relation to the risks that arise from the various activities and operations of investment firms. More specifically, the risks are categorized as below:

Risk to Client

Risk to Client ("RtC") is the risk that an investment firm poses to clients if it fails to carry out its services or operations correctly.

There are four K-factors under RtC:

- **K-AUM (Assets Under Management):** Captures the risks associated with discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature. As at 31st October 2023, Notesco FS provided portfolio management services, however the exposure to this risk was negligible. On November 1st, 2023, the Company ceased its Portfolio Management Investment Services Activities.

- **K-CMH (Client Money Held):** Captures the risk of an investment firm causing potential harm to clients where it holds their money under custody. The Company holds clients' money under custody, therefore the Company is subject to this risk. The Company takes all necessary measures to safeguard the funds of its clients, which include among others, regular client money reconciliations and prompt investigation of any reconciling items, holding client funds in segregated accounts with carefully selected third parties and maintaining accurate internal client records at all times. Moreover, the Company holds its clients' funds in segregated accounts, separated from the Company's own funds.

- **K-ASA (Assets Safeguarded and Administered):** The risk of harm associated with the safeguarding and administering of a client's financial instruments. This does not apply to the Company as the product offering in terms of investment services is constrained to CFDs only which, due to their inherent nature, are captured under K-CMH.

- **K-COH (Client Orders Handled):** Captures the potential risk to clients of an investment firm, which executes orders in the name of the client. This does not apply to the Company since, it is considered that all trades are being executed by the Company which acts as principal in the trade execution process.

Risk to Market

Risk to Market ("RtM") is the risk that an investment firm poses to the financial markets that it operates in and the counterparties that it trades with. There are two K-factors under RtM:

- **K-NPR (Net Position Risk):** The Company is subject to Market Risk as a result of its trading activities where it acts as a counterparty to customers' CFD transactions. The Company is therefore exposed to losses if adverse market movements cause the value of its open positions to decline.

- **K-CMG (Clearing Margin Given):** K-CMH is alternative to K-NPR and aims to provide for Market Risk for trades that are subject to clearing, as set out in Article 23 of the IFR. This is not applicable to the Company since the execution and settlement of the Company's transactions is being carried out Over-The-Counter and is not under the responsibility of any clearing member or qualifying central counterparty.

K-NPR coincides with the Market Risk under the CRR. The Company is exposed to the following sub-categories of NPR:

- **Interest Rate Risk:** Interest Rate Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations of market interest rates affect the prices of securities. The Company's management monitors the interest rate fluctuations and acts accordingly. However, it does not consider Interest Rate Risk as significant since it does not hold any material interest-bearing assets and liabilities.

- **Foreign Exchange Risk:** Foreign Exchange Risk is the risk that the value of financial instrumentsand other assets and liabilities will fluctuate due to unfavorable changes in foreign exchange rates. As the Company's principal activity consists of trading in foreign currencies, it is exposed to Foreign Exchange Risk as a result of the existence of open FX CFD positions in the currencies in which it performs transactions with its customers, as well as from any assets and liabilities that are denominated and funded in currencies other than its reporting currency. The Company maintains position limits for its open positions for each currency, in order to mitigate these risks. The open positions up to a limit are monitored on a continuous basis by the Company's traders.

- **Price Risk*:*** Price Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from Interest Rate Risk and Foreign Exchange Risk). The Company is primarily exposed to Price Risk with regards to open CFD positions in equities (including indices) and commodities. A portion of this risk is naturally hedged as part of the Company's overall risk management process and any remaining net exposure is monitored on a real-time basis by the Company's Trading Desk.

For the mitigation and management of the NPR, the following procedures are established by the Company:

- The Company employs a Risk Manager on a full-time basis, who is responsible for the monitoring of the Group's risk exposure. Any deviation is reported to the Risk Management Committee and appropriate action is taken.
- Aggregate net exposures are monitored as they develop from the opening and/or closing of positions by clients. If risk exceeds desired levels, appropriate actions should be taken to hedge risk until intended levels are achieved.
- Hedging is also performed naturally from opposite positions that clients take.
- The Risk Management Committee and the Risk Manager developed a number of custom-made tools and plug-ins to detect risk exceeding the internally determined risk tolerance levels.
- The Company maintains trading accounts with other regulated companies for engaging in proprietary positions in financial instruments for its own account as a hedging measure and in order to minimize Market Risk, if and when this is needed.
- An Agency model (Straight through Processing or "STP") has been implemented which acts as a hedging measure. Under this model, no risk on clients' trades arises since all trades are fully offset by the liquidity provider. Under the Agency model, every order which the Company may take is accepted and executed on the basis that the Company is acting on its own account. When a customer executes a trade with the Company on the quoted price, the Company enters simultaneously into a trade with its liquidity providers. This results to hedging of the Company's Market Price Risk and decreasing net exposure to various instruments. This model applies to clients who elect this specific service but also to certain clients upon the Company 'sown judgment, taking into account the trading profile of the client.
- The Risk Management Committee monitors the Trading Book regarding risk exposures undertaken and assesses the effectiveness of its hedging strategy. The trading activity is recorded to allow the Risk Management Committee to review and monitor the Company's exposure in real time. The hedging of the Own Account portfolio is performed in liaison with the Head of Dealing on own Account/Execution Department.

Risk to Firm

Risk to Firm ("RtF") is the risk that an investment firm faces through its trading activity and overall market participation. There are three K-factors under RtF:

- **K-TCD (Trading Counterparty Default):** Captures the risk of losses arising from the default of a counterparty with which a company maintains open Trading Book positions in derivatives and other specified transactions. This includes both clients and liquidity providers. The Company is subject to this risk, as it acts as Market Maker for the execution of clients' CFD trades and also performs hedging trades with selected counterparties as deemed necessary and appropriate.

- **K-DTF (Daily Trading Flow):** Captures the Operational Risk related to the value of trading activity that the investment firm conducts. This applies to the Company, as it carries out Dealing on Own Account activities.

- **K-CON (Concentration Risk):** Applies additional own funds to manage concentration to a single counterparty or a group of connected counterparties to which a company incurs Trading Book exposures. This arises from the Company's Counterparty Credit Risk concerning its TCD exposures towards clients and selected counterparties, as well as from its Issuer Market Risk relating to the issuer of underlying equities of CFD transactions. The Company aims to maintain a diversified client portfolio so as to avoid high concentration to any single client, counterparty or issuer.

The Company manages TCD Risk through a number of measures, which include but are not limited to the following:

- The Company has the right to close positions, at its discretion, at margin level equal or less than 20%, starting from the less profitable.
- The Company's clients only begin to trade once money have been deposited into the clients' account.
- The Company offers a Negative Protection Balance policy that implies zero Credit Risk, as the necessary margin is tied for any open positions and the predefined stop-out levels where client's positions are automatically closed below a certain level. This does not allow the clients to go below zero or lose more than the money already deposited into their account.
- There are additional in-house plug-ins for protection of negative balances.
- Leverage is being monitored every Friday between the hours of 21:00 to 24:00 and occasionally before the release of major economic news.

Credit Risk

Apart from Counterparty Credit Risk, which is captured by K-TCD, the Company is also subject to Credit Risk, which arises primarily from the proprietary funds that its constituent entities deposit with institutions, amounts due from related parties and other receivables. Credit Risk is monitored by management and by the Risk Management Committee on an ongoing basis. The Company addresses Credit risk in a number of ways, including the ones set out below:

- The Company's proprietary funds as well as client funds are deposited solely with highly-rated banking institutions or liquidity providers in different jurisdictions.
- The Company uses prime brokers and establishes agreements with counterparties that are considered highly rated. The Company conducts its own research in those institutions to verify that they are indeed financially sound and healthy.

3.3. Other Risks

Liquidity Risk

Liquidity Risk is the risk that the Company may encounter difficulty in meeting its current and forthcoming payment obligations, as and when they fall due. Liquidity Risk also arises from the inability to find buyers on the terms desired. Infrequently traded securities/assets bear higher Liquidity Risk. The imbalance between the number of buyers and sellers, or the fact that the securities/assets are not traded very often, can cause this Liquidity Risk. Liquidity Risk is usually reflected in a wide bid-ask spread or large price movements. To mitigate this risk, the following measures have been established:

- The Company prepares monthly budgets to ensure that it meets its obligations when they fall due.
- The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of its financial obligations.
- The Finance Department monitors rolling forecasts of the Company's liquidity requirements based on expected cash flows in order to ensure that it has sufficient cash to meet its operational needs, under normal and abnormal (i.e. stressed) market conditions.

The Company does not consider Liquidity Risk to be significant as it maintains bank balances which are adequate to cover its immediate liquidity needs, as well as any potential broker margin requirements. Furthermore, as at 31 December 2023, the Company's total Liquid Assets amounted to US$ 428 thousand, which exceeded the Liquidity Requirement of US$ 330 thousand, calculated as the one third of the Fixed Overhead Requirement, in accordance with Article 43 of the IFR.

Regulatory Risk

Regulatory Risk is the risk that the Company may fail to report on time certain information to a regulatory and/or supervisory body, including but not limited to CySEC. The Group has established the following procedures for the mitigation of Regulatory Risk:

- The Company has established procedures and policies based the requirements of relevant Laws and Directives issued by CySEC.
- Each person (i.e., Compliance Officer, Risk Manager, Internal and External Auditor, etc.) is responsible to timely prepare and send the reports to CySEC or any other local authority.
- The Compliance Officer acts as a second eye to ensure that all the Company's reports are sent by the relevant persons to CySEC on time.

Legal and Compliance Risk

The Company is exposed to Legal and Compliance Risk which can be defined as the risk arising out of legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulation. In other words, Legal and Compliance Risk may arise because of breaches or non-compliance with legislation, regulations or practices or the imposition of possible penalties from CySEC.

The Company has established the following procedures for the mitigation of Legal and Compliance Risk:

- The Company employs lawyers on a full-time basis who are responsible for the preparation of agreements and other documentation such as marketing material, which is prone to this risk. Outsourcing legal experts is also common practice, depending on the materiality of the issue and the location the legal opinion is addressed to, due to the international operations of the Company.
- The Company has an in-house Compliance Officer that ensures compliance with the applicable laws and regulations through its monitoring controls and policies.

- An Anti-Money Laundering Officer has been appointed by the Company with the responsibility to address all issues regarding anti-money laundering, while communicating with the relevant law enforcement agencies.
- The Compliance Officer ensures the accuracy of any statements made during the marketing and advertising processes and that the information addressed to the clients is fair, clear and not misleading.
- The Compliance Officer ensures that proper information/reports are sent in due time to CySEC.
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings.
- Internal audit visits are implemented to ensure that employees comply with the Company's internal procedures.
- Several policies and procedures have been established and followed in an attempt to identify and minimize any fraudulent activities.
- An online web-based AML screening program called Comply Advantage is used in an attempt to improvethe know-your-client's procedures and to minimize fraud activities.
- Instant online reporting is available to clients to minimize the risk of mismarking the clients' Positions.
- The Company has a comprehensive and detailed business contingency plan in place, with recovery procedures and actions to be followed in case damage is deemed vital to the Company's structure.
- The Company has an updated Conflicts of Interest Policy to ensure that any conflicts are identified and resolved in a consistent and appropriate manner.
- The Company obtains legal advice from its legal advisors for all its official documents and beforeit enters into new markets.
- Financial accounts are audited by a reputable audit firm, eliminating the risk of Company statement manipulation or tax evasion.

Reputational Risk

The Company is exposed to Reputational Risk which can be defined as the possibility that negative publicity concerning a company's practices or relations result in a loss in its quality of service, its integrity, or its financial solidity, causing substantive losses (i.e. deposits, customers) or valuation losses (i.e. prices of its tradable securities) that can potentially undermine its existence. In particular, Reputational Risk can materialize in the case of non-compliance with regulations, a breach of ethical values or the perception by customers of an unfavorable discrepancy between the commercial offering and the reality of the Company's practices.

To manage Reputational Risk, the Company acknowledges that it is responsible for market changes (including regulatory changes) and ensures that policies and procedures are adhered to. To this end, the Company controls all marketing communication that goes out to the public and stays up to date with the regulatory requirements and obligations in an effort to maintain a strong reputation. In addition, it obtains legal opinions on new jurisdictions in which it wants to operate to ensure that it doesn't violate any laws. According to the third countries' requirements, it adjusts its marketing material accordingly. Furthermore, employees are bound by confidentiality policies and there are several controls to minimize the risk of internal fraudulent activity not being spotted or prevented. The Company's management ensures responsiveness to changes of a market or regulatory nature, that may impact its reputation in the marketplace.

4. OWN FUNDS

4.1. Composition of Own Funds

As per the rules set by the IFR (Article 9), investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, subject to the conditions below, at all times:

1. Common Equity Tier 1 Capital shall constitute at least 56% of the Own Funds Requirements.
2. Common Equity Tier 1 Capital and Additional Tier 1 Capital shall constitute at least 75% of the Own Funds Requirements.
3. Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital shall correspond to at least 100% of the Own Funds Requirements.

Table 2 below presents the composition of the Own Funds of the Company, as of 31 December 2023. The Company maintained only Common Equity Tier 1 capital as eligible Own Funds and no Additional Tier 1 Capital or Tier 2 Capital. A detailed description of the main features of Common Equity Tier 1 instrument issued by the Company are presented in Appendix II of these Disclosures.

4.2. Reconciliation of regulatory capital with consolidated financial statements

Table 3 below provides a reconciliation between the Company's Statement of Financial Position presented in its Financial Statements, with regulatory Own Funds.

Table 2: Composition of regulatory Own Funds

Template EU IF CC1.01			
Ref.		**31 Dec 2023 (US$'000)**	**Source based on reference numbers/letters of the Balance Sheet in the Financial Statements (cross reference to EU IF CC2)**
1	**OWN FUNDS**	**2.793**	
2	**TIER 1 CAPITAL**	**2.793**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**2.793**	
4	Fully paid-up capital instruments	7.082	Ref. 1 (Shareholders' Equity)
5	Share premium	11.327	Ref. 2 (Shareholders' Equity)
6	Retained earnings	(14.066)	Ref. 3 (Shareholders' Equity)
10	Adjustments to CET1 due to prudential filters	(0)	
17	(-) Losses for the current financial year	(1.517)	Ref. 3 (Shareholders' Equity)
19	(-) Other intangible assets	(16)	Ref. 1 (Assets)

27	CET1: Other capital elements, deductions and adjustments	(17)	Ref. 3 (Assets)
28	**ADDITIONAL TIER 1 CAPITAL**	-	
40	**TIER 2 CAPITAL**	-	

Table 3: Reconciliation of regulatory Own Funds to Balance Sheet in the Company's financial statements

Template EU IFCC2			
Ref.	**Balance sheet as in financial statements**	**As at 31 Dec 2023 (US$'000)**	**Cross reference to EU IF CC1**
Assets			
1	Intangible assets	16	Ref. 19
2	Other Non-current assets	6.534	
3	Cash and short-term deposits (Minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of clients)	16	Ref. 27
4	Cash and short-term deposits (Other)	606	
5	Other Current assets	410	
6	**Total Assets**	7.582	
Liabilities			
1	Non-Current Liabilities	2.175	
2	Current Liabilities	2.581	
3	Total Liabilities	4.756	
Shareholders' Equity			
1	Share Capital	7.082	Ref. 4
2	Share Premium	11.327	Ref. 5
3	Retained Earnings / (accumulated losses)	(15.583)	Ref. 6
4	Total Shareholders' equity	2.826	

It shall be noted that Tables 2 and 3 above have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02).

5. CAPITAL REQUIREMENTS

The IFR/IFD framework dictates for Class 2 investment firms that the Own Funds Requirement is derived by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

5.1. Fixed Overheads Requirement ("FOR")

The Fixed Overheads Requirement, as per Article 13 of the IFR, shall amount to at least one quarter of the fixed overheads of the preceding year, calculated using figures from the most recent audited annual financial statements, where available, after the distribution of profits.

5.2. Permanent Minimum Capital Requirement (“PMCR”)

The Company monitors on a continuous basis its Own Funds and ensures that they remain above the Permanent Minimum Capital Requirement of US$ 951 thousand, which corresponds to the PMCR of the Company (US$ 800 thousand).

5.3. K-Factor Capital Requirement

The K-factor methodology essentially quantifies the risks analyzed and categorized in Section 3.2 of this document. As at 31 December 2023, the Company was subject to K-CMH, K-NPR, K-TCD, K-DTF and K-CON, as a result of the activities that the entity carries out.

Table 4 below represents the Company’s minimum capital requirements as of 31 December 2023. As it can be seen, the FOR is the highest of the three amounts indicated by the IFR methodology, hence determining the ultimate amount of minimum capital requirements.

Table 4: Minimum Capital Requirements

Minimum Capital Requirements		31 Dec 2023 (US$’000)
K-Factor Requirement		
Risk-to-Client (RtC)	K-AUM	-
	K-CMH	4
	K-ASA	-
	K-COH	-
Risk-to-Market (RtM)	K-NPR	144
	K-CMG	-
Risk-to-Firm (RtF)	K-TCD	18
	K-DTF	1
	K-CON	-
Total K-Factor Requirement		**167**
Fixed Overhead Requirement		**989**
Permanent Minimum Capital Requirement		**829**

5.4. Capital Adequacy Ratio

As per Table 5 below, as of 31 December 2023 the Company’s Own Funds exceeded the regulatory minimum by $1.799K, thus maintaining a Capital Adequacy Ratio of 282%, which is considerably above the required minimum of 100%.

Table 5: Capital Excess / Ratio

	31 Dec 2023 (US$'000)	Reference
Capital		
Common Equity Tier 1	2.793	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	**2.793**	***a***
Own Funds Requirement		
K-factor Requirement	167	*b*
Fixed Overhead Requirement	989	*c*
Permanent Minimum Capital Requirement	829	*d*
Minimum Own Funds Requirement	**989**	***e = (higher of b, c, d)***
Capital Excess/Ratio		
Capital Excess	**1.804**	***a-e***
Capital Ratio	**282%**	***a/e***

6. INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT ("ICARA")

The IFD introduced the ICARA process in 2021 for investment firms (Article 24 of IFD), which is similar in some respects to the previous Internal Capital Adequacy Assessment Process ("ICAAP"), which it has replaced. The ICARA falls under the scope of Pillar II, which is described as a set of relationships between CySEC and the investment firm. Its objective is to enhance the link between a CIF's risk profile, its risk management and risk mitigation systems, and effectively its capital. The Company has prepared its ICARA for 2021 and is in process of updating its ICARA in order to ensure that it is fully aligned with the IFR/IFD framework.

Pillar II establishes a process of prudential interaction that complements and strengthens Pillar I, by promoting an active dialogue between the CySEC and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfilment of which may entail threats for the Company, are identified and managed effectively with the enforcement of additional controls and mitigating measures. The ICARA is an important part of the process through which the Company's management is informed of the ongoing assessment of the Company's risks, sets mitigation measures and controls for those risks and identifies and measures current and future capital needs, having considered the above.

The Company considers the ICARA as a key element of its day-to-day governance process and its strategic management initiatives.

The ICARA Report is a document that is submitted to the Board for approval and subsequently to CySEC, upon request by the latter, explaining:

- How the CIF has implemented and embedded the ICARA process within its business.

- The risk profile and the extent of risk appetite that the CIF is prepared to accept.
- The capital that it considers as adequate to be held against all the risks that the CIF is exposed to in accordance with its assessment.

7. REMUNERATION DISCLOSURES

In accordance with the requirements of Article 51 of the IFR, the Company publicly discloses information regarding its remuneration policy and related practices for those categories of staff whose professional activities have a material impact on its risk profile. The Company's Remuneration Policy captures provisions from the IFR and CySEC's Law 165(I)/2021 and aims to align the remuneration of Directors, Senior Management, officers and staff with the business strategy, objectives and long-term interests of the Company. It is consistent with the effective management of risks and does not encourage excessive risk taking.

The remuneration of staff is dependent on various elements such as jurisdiction, legal and regulatory requirements, employment law requirements, market and industry practices and competition analysis. The remuneration of Senior Management and employees are decided with reference to the above elements by the Human Resources Department and the Board of Directors. The Board ensures that all remuneration decisions are in line with the stated risk appetite and framework of the Company and its current and future financial position.

The setting of remuneration supports the business objectives and corporate values of the Company and is aimed at promoting prudent risk management and to avoid excessive risk taking, by attracting, retaining and motivating the key talent needed to achieve these outcomes.

7.1. Performance-Related Pay

The Company's remuneration arrangements represent a combination of salary, bonuses and long-term incentive schemes that are designed to align the interests of the Company and its employees with those of its clients and other stakeholders and to effectively ensure continuous long-term profitability. Non-salary remuneration plans are completely variable, based on the Company's performance as well as on individual performance.

The Company ensures that the variable remuneration bonus pool is a conservative percentage of its net income. This means that staff remuneration is dependent upon Company profitability, thus allowing the Company to manage its capital prudently.

7.2. Design and structure of Remuneration

Members of the Board of Directors receive a fixed fee. Board members are not covered by incentive programs and do not receive performance-based remuneration. The basic fee of a Board member is set at a level that is aligned with the rest of the market and reflects the qualifications and contribution required in view of the Company's complexity, and the extent of responsibilities and the number of Board meetings.

The directors' fees for non-executive directors for the year ended 31 December 2023 amounted to US$35K.

Senior Management is independent from the business units they oversee, has appropriate authority, is remunerated in accordance with the achievement of the objectives linked to their functions and is independent of the performance of the business areas they control. Other benefits provided to the Directors and Senior Management include medical fund contributions and life insurance contributions.

During the year ended 31 December 2023, the key management personnel compensation included only fixed salaries of US$192K with four persons being the beneficiaries.

Also, there were no severance payments or deferred remuneration awarded and/or paid out during the financial year.

Table 6 below provides a breakdown of the remuneration for key management personnel, whose actions had a material impact on the risk profile of the Company:

Table 6: Quantitative Information on Remuneration

Description	No. of beneficiaries	Fixed Remuneration US$'000	Variable Remuneration US$'000
Senior Management (including Executive Directors)	4	192	-
Other staff (including non-Executive Directors)	5	120	-
Total	**9**	312	**-**

APPENDIX I: GLOSSARY

BoD	Board of Directors
CET1	Common Equity Tier 1
CFD	Contracts-for-Difference
CIF	Cyprus Investment Firm
Company	Notesco Financial Services Limited
CRR	EU Capital Requirements Regulation No. 575/2013
CRDIV	EU Capital Requirements Directive No. 2013/36/EU
CYSEC	Cyprus Securities and Exchange Commission
EBA	European Banking Authority
EU	European Union
FOR	Fixed Overhead Requirement
ICAAP	Internal Capital Adequacy and Assessment Process
ICARA	Internal Capital Adequacy and Risk Assessment
IFD	Investment Firm Directive (EU Directive 2019/2034)
IFR	Investment Firm Regulation (EU Regulation 2019/2033)
IFRS	International Financial Reporting Standards Law
Investment Services Law	Investment Services and Activities and Regulated Markets Law 87(I)/2017
K-ASA	K-factor for Assets Safeguarded & Administered
K-AUM	K-factor for Assets Under Management
K-CMG	K-factor for Clearing Margin Given
K-CMH	K-factor for Client Money Held
K-COH	K-factor for Client Orders Handled
K-CON	K-factor for Concentration Risk
K-DTF	K-factor for Daily Trading Flow
K-NPR	K-factor for Net Position Risk
K-TCD	K-factor for Trading Counterparty Default
OTC	Over the Counter
PMCR	Permanent Minimum Capital Requirement
RtC	Risk to Client
RtF	Risk to Firm
RtM	Risk to Market
SREP	Supervisory Review & Evaluation Process
STP	Straight Through Processing
US	United States

APPENDIX II: CAPITAL INSTRUMENTS MAIN FEATURES

The main features, including full terms and conditions, of the ordinary shares of the Company are listed in the table below:

Template EU IF CCA: Common Equity Tier 1 instruments		
1	Issuer	Notesco Financial Services Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private Placement
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	US$ 7,082 mln
7	Nominal amount of instrument	Various
8	Issue price	Various
9	Redemption price	N/A
10	Accounting classification	Share Capital
11	Original date of issuance	12/01/2010
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	N/A
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	N/A
23	Noncumulative or cumulative	N/A
24	Convertible or non-convertible	N/A
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A