# 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 2024**

**Date of preparation: 30 April 2025**

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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 and dealing on own account. 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 2024 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 2024 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 either situation, therefore the Company is 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 2024 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 2024, 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 2024.

### 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 2024 consisted of two (2) Executive Directors and two (2) independent Non-Executive Directors.

As of 31st December 2024, 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 | 1 | 4 |

## 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 risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice. As the Company does not provide portfolio management or investment advice services, the Company is not subject to the risk relating to this K-factor.

- **K-CMH (Client Money Held):** Captures the risk of potential for harm where an investment firm holds the money of its clients, considering whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. As part of its business, the Company acts as custodian on clients' money, and to this end, it is subject to the risk captured by this K-factor. 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):** Captures the risk of safeguarding and administering client assets and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts. The Company provides custody services in relation to its clients' positions in Contracts For Difference ("CFDs"), which it treats under K-CMH due to their inherent nature being more reminiscent to cash than securities, and is therefore not subject to the risk relating to this K-factor.

- **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-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. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Bearing in mind the Company's operations, this k-factor is not applicable to Notesco.

- **K-NPR (Net Position Risk):** K-NPR means the value of transactions recorded in the Trading Book of an investment firm. This K-factor is based on the rules for Market risk for positions in interest rate and equity financial instruments, in foreign exchange and in commodities in accordance with Regulation (EU) No. 575/2013 (Capital Requirements Regulation or "CRR"). Therefore, K-NPR captures the Market risk, which is defined as the risk that the value of an investment will decrease due to changes in market factors (such as currency fluctuations, changes in interest rates, and movements in equity and commodity prices).

  The Company's exposure to Market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. The Company is subject to Market risk as a result of its trading activities where it acts as a counterparty to its clients' CFD trades, as well as from any hedging trades performed with selected counterparties in order to mitigate the risk arising from its positions against clients. The Company is therefore exposed to losses in the case where adverse market movements cause the value of its open positions to decline.

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 value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to Interest Rate risk in relation to deposits with banks, however bank balances are held in current accounts, bearing insignificant interest. The Company is also exposed to Interest Rate risk through its open positions in FX CFDs which however, due to their short-term nature, result to zero or immaterial amounts of this risk.

  The Company's management nevertheless monitors the interest rate fluctuations on a continuous basis and acts accordingly.

- **Foreign Exchange Risk:** Foreign Exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company operates internationally, hence it is exposed to transactional Foreign Exchange risk arising from various currency exposures. Transactional Foreign Exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

  The Company has established agreements and maintains accounts with other regulated companies for hedging purposes. The accounts are always available to the dealers on duty 24/5 and can be either used to manually hedge a specific client's or the Company's exposure on certain instruments.

- **Price Risk*:*** Price Risk is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of transactional foreign currency exposures or interest rate risks. The Company incurs Market Price risk because of its trading activities in CFDs on stocks, indices, commodities, gold and foreign currency. The Company has hedging mechanisms to mitigate its exposure towards these products whenever deemed necessary, with a view to ensuring continuous compliance with Pillar 1 regulatory thresholds and relevant KRIs established as part of its Risk Appetite.

- **Market Equity Risk:** Equity risk is the risk of loss from movements in the price of equities or equity indices. The Company is subject to Equity risk as a result of its open positions in equity CFDs and stock index CFDs towards clients when it acts as market maker when receiving and executing clients' orders, as well as through related hedging activities with selected counterparties.

- **Commodity Risk:** Commodity risk is the risk of loss from movements in the price of commodities. The Company is subject to Commodity risk through the positions it holds in instruments such as CFDs in commodities and precious metals other than gold, either when acting as market maker to execute clients' orders or when hedging risk arising from those positions.

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

- The Risk Manager is responsible for the monitoring of the Company's overall risk exposure and any deviation identified is brought to the attention of the Risk Management Committee for immediate action.
- The trading activity is recorded so as to allow the Risk Manager to review and monitor the Company's exposure. Closed positions are reviewed on an individual and on an aggregate level.
- 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 are taken to hedge risk

until intended levels are achieved. The Company currently has in place an excel 'Risk management' file, which reflects live the aggregate net exposures. The Company further has in place a 'Dealing Monitor Programme', which indicates the clients with the highest exposure.

- The Company maintains trading accounts with other regulated firms for engaging in proprietary positions in financial instruments for its own account as a hedging measure and to minimize Market risk, if and when this is needed.
- The Company offers the trading option for a client to be able to open an STP account, where the Company has no risk on clients' trades since all trades are fully offset by the liquidity provider.
- Considering the above, in case risky traders are identified, they are then moved to the STP trading environment in an attempt to minimise the Company's risk. Risky traders are identified through client profile, initial deposit and trading exposure. Depending on the risk of each client the Company decides whether the risky trader will be fully or partially hedged on the STP environment.
- The Company applies leverage depending on the client's equity amount as well as the client's risk profile up to a maximum of 500:1 (institutional clients).
- The Company offers a variety of spreads depending on the financial instrument and time, (i.e. during London trading session or US trading session spreads are lower reflecting high liquidity).
- The Company receives feeds from various feed providers and ensures that correct and more competitive pricing is provided to clients.
- The Company has the right to close any open positions on the ex-dividend day for any of the underlying assets of the financial instrument positions at the last price of the previous trading day and open the equivalent volume of the underlying financial instrument at the first available price on the ex-dividend day.
- Furthermore, the Risk Management Function has developed a number of custom-made tools and plug-ins that are devised in such a way so as to detect excessive risk trading from clients. More specifically, there is a Live Exposure Monitor program that identifies any excessive overall exposure as well any exposure at a currency pair level. The Company does not accept any retail or other individual clients. For Professional clients or eligible counterparties, the maximum leverage is up to 500:1.
- Once such risky flow or risky clients are identified, they are passed to the Liquidity Provider via STP. The Company has created different stages where it can evaluate and identify the client's risk trading profile and decide whether to divert to STP or not due to expected Market risk.

**Risk to Firm**

Risk-to-Firm ("RtF") captures the investment firms' exposure to the risk of Default of their Trading Counterparties (K-TCD), the Concentration Risk arising from investment firms' Trading Book exposures to counterparties and their connected persons (K-CON) and operational risks from the investment firms' Daily Trading Flow (K-DTF).

- **K-TCD (Trading Counterparty Default):** Captures the Counterparty Credit Risk arising from an investment firm's exposure in the Trading Book, in specific instruments and transactions (includes positions with both clients and liquidity providers) giving rise to the risk of trading counterparty default and failure to fulfil their obligations towards the Company.

  For the Company, Counterparty Credit Risk arises primarily from the Company's open CFD positions maintained with clients and hedging counterparties, and reflects these parties' potential failure to pay for profitable trades.

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

- The Firm follows a strong risk management strategy when it comes to penetrating new markets (i.e. before starting operations in third countries it always obtains legal opinions and ensures that all regulatory requirements are well known in advance).
- Clients trading with the Company must have sufficient funds deposited in their client account with the Company and the necessary margin should be tied up for any open positions before proceeding.
- The Company uses prime brokers and establishes agreements with the counterparties that are considered highly rated.
- As with the other K-factors, the Risk Manager is responsible for calculating the minimum capital requirements for K-TCD on a quarterly basis and for monitoring the K-TCD exposures on an ongoing basis. The results of the capital requirements calculations are being reported on a quarterly basis to CySEC and the Company's Management through the completion of the capital adequacy reports (i.e. excel-to-XBRL CoRep template).

- **K-DTF (Daily Trading Flow):** Captures the risk of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name. DTF means the daily value of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients through the reception and transmission of client orders and through the execution of orders on behalf of clients which may have already been taken into account in the scope of Client Orders Handled. K-DTF applies to the Company as a result of the open positions it maintains with clients and counterparties by acting as principal.

The Company manages K-DTF risk through reconciliations with Bank Accounts and Liquidity Providers which are conducted daily. The Risk Manager ensures that the minimum capital requirements for K-DTF are calculated and monitored on an ongoing basis and reported on a quarterly basis to the Board and to CySEC.

- **K-CON (Concentration Risk):** Seeks to apply additional own funds to manage concentration to a single counterparty/ issuer of financial instruments or a group of connected counterparties/issuers to which an investment firm incurs Trading Book exposures. The Company incurs concentration risk through its TCD exposures towards its clients and liquidity providers for which it acts as the counterparty for executing their CFD transactions. In addition, the Company incurs concentration risk because of the positive excess of the long over short notional position in issuers of equity and interest-rate instruments in the Trading Book.

- Moreover, Concentration Risk may also arise from the concentration to a single product, currency, country, sector and industry. This type of concentration risk reflects non-Trading Book exposures and is not captured under the Company's Pillar 1 K-CON calculations; as a result, it is being considered in the Company's ICARA process, which is coordinated and implemented by the Risk The Company manages K-CON risk through closely monitoring concentrations to clients, other counterparties, issuers, countries and products and establishes limits to serve as early warning flags to enable it to act promptly when certain concentrations are not desired.

### 3.3. Other Risks

**Liquidity Risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. Liquidity risks can also arise either via extreme market conditions and/or failures of designated counterparties that the Company associates with.

Further to the above, and subject to the provisions of the Directive DI87-01 of CySEC for the safeguarding of financial instruments and funds belonging to clients, the Company is exposed to liquidity risk with respect to the accounts that the clients' funds are kept. Extreme market conditions can lead to failure of multiple counterparties (i.e., Liquidity Providers, credit institutions, payment service providers, etc.) that will lead the Company to face liquidity issues.

To mitigate this risk, the following measures have been established:

- The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

- With respect to client funds, the Company takes actions to keep liquidity risk to a minimum. This is achieved through daily client money reconciliations, keeping client money in segregated client accounts, and never mixing it with own funds. In terms of own funds and obligations towards other parties, the Company prepares budgets to ensure that it remains profitable without making any loans.

- The Company also monitors on a quarterly basis that the liquidity requirement of Article 43(1) of IFR is always met (according to Pillar 1 requirements).

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 2024 the Company's total Liquid Assets amounted to US$ 343 thousand, which exceeded the Liquidity Requirement of US$ 284 thousand, calculated as the one third of the Fixed Overhead Requirement, in accordance with Article 43 of the IFR.

**Credit Concentration Risk**

Credit Concentration risk could arise from insufficient diversification of Company and client balances among third party institutions. The Company minimizes this risk by striving to diversify its own and the clients' funds among more than two financial institutions, assessing their credibility through accredited rating agencies, and keeping a close monitoring procedure to receive early warning flags and act accordingly. Moreover, the Company performs a due diligence procedure on each such third party, both before the commencement of the business relationship and the transfer of any own or client funds to the third party's accounts, and on a regular basis during the relationship.

The Company is also subject to concentration limits for its exposures towards its shareholders and directors, both on a connected basis (i.e. together with their connected persons), as per the provisions of paragraph 61 of CySEC's Directive 144-2014-14 & 14(A) for the Prudential Supervision of Investment Firms (Note: under the IFR these limits continue to exist but only based on a supervisory expectation as part of the Pillar 2 - ICARA process). In order to manage this risk, the Finance & Accounting Department ensures that collections are affected in line with the agreements in place and that there is transparency for the operations and performance of the other group entities with which it cooperates and which are commonly owned by its shareholders.

**Operational Risk (other than DTF)**

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. Some of the key operational risks that the Company incurs are set out below:

- Business Continuity/Systems Failure risk - utility disruptions, software failures, hardware failures.
- Control Failure risk - data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets, product defects.
- Disaster risk - including physical disasters incurring loss of or damages on assets/premises.
- Internal or External Fraud risk - misappropriation of assets, account churning, tax evasion, intentional mismarking of positions, bribery, theft of information, hacking damage, third-party theft, and forgery fiduciary breaches.
- Terrorism risk.
- Policy Violation risk.
- Third Party Dependency risk (e.g., IT services provider).
- Outsourcing risk.
- Information and Technology risk.

- Physical Security risk.
- Personnel issues/loss of key employees risk.
- Loss of data risk.
- Systems failure risk.
- External events (e.g., power-cut, natural disasters).

The Company manages Operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of Operational risks incidents to ensure that past failures are not repeated.

The Company's Risk Management Function has procedures in place for the identification, measurement, assessment, monitoring and mitigation of Operational risk. It provides guidance and advice to the business lines and acts as a channel of communication between the business lines and the Board. Furthermore, the Company has policies in place in relation to backup procedures, software maintenance, hardware maintenance, the use of the internet and anti-virus protection and for the Third-Party Dependency risk. More specifically, the Company has a proprietary risk management tool that enables real time position monitoring based on predetermined parameters such as monitoring of individual, aggregate risk, and alert systems through notifications.

To mitigate this risk, the following measures have been established:

**Disaster risk:**

The Company maintains a Disaster Recovery Plan for the restoration of functionality following any disaster or any other urgent situation. More information about this Plan can be found in the Company's Internal Operations Manual.

Internal Fraud Risk:

- The Company ensures ethical behavior within Notesco according to the Code of Ethics and other related policies.
- Strict standards are applied by outsourcing the Internal Audit Function to one of the leading audit firms in Cyprus.
- The Company's financial accounts are audited by one of the leading audit firms in Cyprus, thus eliminating the risk of Company statement manipulation or tax evasion.
- The necessary structure is set up to ensure separation of powers regarding vital functions. Each employee is reporting to his supervisor. The head of each department is reporting to the management and the latter to the Board of Directors.
- Instant online reporting is available to clients to minimize the risk of mismarking clients' positions.
- The Company establishes procedures for the receipt, retention and resolution of complaints received in relation to accounting and/or auditing issues and ensures the confidential submission of such complaints through the route outlined in the Whistleblowing Policy.

**Regulatory Compliance Risk**

Regulatory Risk is the risk of failure by the Company to comply with its regulatory obligations, supervisory expectations, approved practices and ethical standards. The Company is subject to this risk, as there is always a possibility of failing to comply with the regulatory requirements, either due to not being aware of some provisions or from a lack of understanding of the Regulator's expectations, or from misinterpretation of legislation, or due to delay in implementing enforced provisions.

To mitigate this risk, the following measures have been established:
The Company's Compliance Function makes every effort to stay up to date with regulatory requirements, and at the same time the Group seeks the expert advice of its external consultants when required. In addition, several procedures and policies are in place to control and minimise this risk including a fully comprehensive Compliance Monitoring Program as per which the Compliance Function regularly monitors any compliance risk areas as per the frequencies set therein. A few principles are outlined below (not exhaustive):

- Any marketing and/or advertisement guidelines issued by CySEC are communicated to the relevant employees.
- Marketing and media instructions were issued for all employees that deal with media to ensure that correct and accurate information is provided to the public.
- The Company has implemented internal instructions with respect to the information provided to clients (prohibition of misleading information).
- The four-eye principle applies during the preparation and dissemination of marketing materials with a member of the management and the compliance officer reviewing such materials for ensuring the accuracy of any statements made for ensuring that the information addressed to the client is fair, clear, and not misleading.
- Relevant risk warnings are included on any marketing materials.
- Marketing materials are reviewed by two persons prior to their dissemination to the public. In particular, the marketing materials are reviewed by the Head of Marketing Department as well as the Compliance Officer, in order to ensure compliance with the relevant sections of the Law. The Company's marketing activities are limited in that it uses its websites as the primary means of marketing to clients.

**Business Risk**

Business risk arises due to probable losses that might be incurred by the Company during unfavorable market conditions, thus having a current and/or future possible impact on earnings or capital from adverse business decisions and/or lack of responses to industry changes by the Company. The Company may be exposed to Business risk in case of a deterioration of the business and economic conditions in the markets in which it operates.

To mitigate this risk, the following measures have been established:
The Company's Management shall take into consideration Business risk when considering and approving the Company's financial projections and when conducting its stress testing. To avoid any potential damage to its financial position, the Company continuously evaluates, and redesigns if and when necessary, its business plans taking into account changing economic conditions. Also, in order to manage its Strategic risk, the Company:

- Assesses, on a regular and frequent basis, the Company's strategy and its objectives and updates the Company's budget accordingly.
- Requests the Board of Directors' approval before initiating any projects that could have an impact on the Company's short- and long-term business plans and requests other people and resources in order to be completed, where needed.
- Reports to the Board of Directors, on a regular basis, any goals achieved or not completed, so that actual results can be measured in comparison to forecasts.
- The Company's management actively uses market analysis tools and financial projections to make sure that it sets realistic goals and is able to continue to expand in new markets. In this way, Strategic risk is reduced.
- Several reports are produced that help monitor the profitability of accounts for the Company.

**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. In addition, the Company ensures that it complies with all laws and regulations, and it is transparent to its regulators thus, any articles published in the media will not be of any surprises to the Company's regulators and the Company will not be exposed to whatsoever.

## 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 2024.

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 2024 (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** | **3.177** | |
| 2 | **TIER 1 CAPITAL** | **3.177** | |
| 3 | **COMMON EQUITY TIER 1 CAPITAL** | **3.177** | |
| 4 | Fully paid-up capital instruments | 7.460 | Ref. 1 (Shareholders' Equity) |
| 5 | Share premium | 11.327 | Ref. 2 (Shareholders' Equity) |
| 6 | Retained earnings | (15.583) | Ref. 3 (Shareholders' Equity) |
| 10 | Adjustments to CET1 due to prudential filters | (0) | |
| 17 | (-) Losses for the current financial year | - | Ref. 3 (Shareholders' Equity) |
| 19 | (-) Other intangible assets | (11) | Ref. 1 (Assets) |
| 27 | CET1: Other capital elements, deductions and adjustments | (16) | 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 2024 (US$'000)** | **Cross reference to EU IF CC1** |
| **Assets** | | | |
| 1 | Intangible assets | 11 | Ref. 19 |
| 2 | Other Non-current assets | 6.073 | |
| 3 | Cash and short-term deposits (Minimum cash buffer of 3 per thousand of the eligible funds and financial instruments of clients) | - | Ref. 27 |
| 4 | Cash and short-term deposits (Other) | 558 | |
| 5 | Other Current assets | 934 | |
| 6 | **Total Assets** | 7.576 | |
| **Liabilities** | | | |
| 1 | Non-Current Liabilities | 1.130 | |
| 2 | Current Liabilities | 3.209 | |
| 3 | Total Liabilities | 4.339 | |
| **Shareholders' Equity** | | | |
| 1 | Share Capital | 7.460 | Ref. 4 |

| | | | |
|---|---|---|---|
| 2 | Share Premium | 11.327 | Ref. 5 |
| 3 | Retained Earnings / (accumulated losses) | (15.551) | Ref. 6 |
| 4 | Total Shareholders' equity | 3.236 | |

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$ 852 thousand, which corresponds to the PMCR of the Company (US$ 779 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 2024, 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 2024. 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 2024 (US$'000) |
|---|---|---|
| **K-Factor Requirement** | | |
| Risk-to-Client (RtC) | K-AUM | - |
| | K-CMH | 2 |
| | K-ASA | - |
| | K-COH | - |
| Risk-to-Market (RtM) | K-NPR | 53 |
| | K-CMG | - |

| | | |
|---|---|---|
| Risk-to-Firm (RtF) | K-TCD | 19 |
| | K-DTF | 1 |
| | K-CON | - |
| **Total K-Factor Requirement** | | **75** |
| **Fixed Overhead Requirement** | | **852** |
| **Permanent Minimum Capital Requirement** | | **779** |

### 5.4. Capital Adequacy Ratio

As per Table 5 below, as of 31 December 2024 the Company's Own Funds exceeded the regulatory minimum by $2.325K, thus maintaining a Capital Adequacy Ratio of 373%, which is considerably above the required minimum of 100%.

**Table 5: Capital Excess / Ratio**

| | 31 Dec 2024 (US$'000) | Reference |
|---|---|---|
| **Capital** | | |
| Common Equity Tier 1 | 3.177 | |
| Additional Tier 1 | - | |
| Tier 2 | - | |
| **Total Own Funds** | **3.177** | ***a*** |
| **Own Funds Requirement** | | |
| K-factor Requirement | 75 | *b* |
| Fixed Overhead Requirement | 852 | *c* |
| Permanent Minimum Capital Requirement | 779 | *d* |
| **Minimum Own Funds Requirement** | **852** | ***e = (higher of b, c, d)*** |
| **Capital Excess/Ratio** | | |
| **Capital Excess** | **2.325** | ***a-e*** |
| **Capital Ratio** | **373%** | ***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 2024 amounted to US$33K.

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 2024, the key management personnel compensation included only fixed salaries of US$540K with fifteen 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) | 3 | $114 | - |
| **Other staff** (including non-Executive Directors) | 12 | $426 | - |
| **Total** | **15** | $540 | **-** |

## 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$ 7,460 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 |