DIF BROKER

MARKET DISCIPLINE

2019

Public Disclosure of Information

I. INTRODUCTION

This report has been prepared in compliance with Regulation (EU) No. 575/2013 (hereinafter "the Regulation") and the Information Disclosure Requirements Policy under the Regulation, with reference to 31 December 2019 and covers the consolidated reporting framework of DIF BROKER - SOCIEDADE FINANCEIRA DE CORRETAGEM, SA (hereinafter "DIF BROKER" or "Company").

This Report complements the Annex to the Annual Financial Statements by providing the market with more detailed information on the risk exposure and solvency of DIF BROKER, as provided for in Part VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council and following the guidelines of EBA (EBA/2016/11) of 4 August 2017.

This document was prepared by the Company's risk area with regard to the information to be reported and approved by the Board of Directors A (hereinafter "Board of Directors") of DIF BROKER.

The information disclosed is available for consultation by the general public on the Company's website at https://www.difbroker.com/pt/wp-content/uploads/sites/4/2020/01/DISCIPLINA-DE-MERCADO.V1.pdf

Whenever the information to be disclosed is disclosed in the 2019 Report and Accounts, the respective reference will be made to them, which are published on DIF BROKER's website at www.difbroker.com.

II. DECLARATION OF LIABILITY

The Board of Directors of DIF BROKER declares, in accordance with and for the purposes set out in Regulation (EU) No. 575/2013, that:

a) All the procedures deemed necessary have been developed and, to the best of their knowledge, all the information disclosed is true and reliable;

b) It ensures the quality of all information disclosed, including that referring to or originating from entities included in the economic group to which the Company belongs;

c) It undertakes the commitment to disclose, in a timely manner, any significant changes that occur in the course of the financial year following that for which the "Market Discipline" refers to and it already states that between the end of the financial year to which the document refers and the date of its publication, there are no relevant facts to be highlighted;

e) It believes that the annual publication of this report is sufficient to provide the market with adequate information;

f) In view of the information disclosure requirements contained in Part VIII of the Regulation, DIF BROKER is obliged to disclose the following technical criteria on transparency and disclosure of information with reference to the financial year ending on 31 December 2019, both for the activity it carries out and for its size:

- Risk management objectives and policies (Art. 435 of the Regulation);
- Own Funds (Art. 437 of the Regulation);
- Capital Requirements (Art. 438 of the Regulation);
- Assets free of charge (Art. 443 of the Regulation);
- Remuneration policy (Art. 450 of the Regulation).

g) It is its commitment to promote the continuous improvement of the Company's risk management system, considering it adequate to the complexity, nature, size and risk profile of the Company and the companies with which it has a relationship and group.

III. SCOPE OF APPLICATION

This report covers the consolidated reporting framework for DIF BROKER as at 31 December 2019:

• DIF BROKER - parent company - based in Porto, which is wholly owned by private investors and has as its object the performance of all operations and the provision of any services permitted to investment companies, without any limitations of a statutory nature.

• The subsidiary DIF MARKETS, AGENTE DE VALORES, SA, with headquarters in Montevideo, Uruguay, which share capital is 80% held by DIF BROKER and which main object is the intermediation of securities transactions. This entity is consolidated by the integral method.

• The subsidiary OPTIMIZE INVESTIMENTO, SGPS, SA, with headquarters at Avenida Fontes Pereira de Melo, no. 21-4º andar, 1050-116 Lisbon, which share capital is held 21% by DIF BROKER and has as its object the management of shareholdings in its participated companies of Investment Corporation and Mediation. The consolidated financial statements reflect the profit share of associates and subsidiaries by applying the equity method.

• The individual financial statements of DIF Broker Sociedade Financeira de Corretagem, SA, include the activity carried out in Portugal and Spain through the branch office DIF BROKER SOCIEDAD FINANCIERA DE CORRETAGEM S.A., SUCURSAL EN ESPAÑA, with headquarters in Madrid, Spain and which object is the intermediation of securities transactions.

The framework of prudential and accounting consolidation coincide.

RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Management and risk policies and practices

The Risk Management Policy is reviewed and approved by the Board of Directors on a minimum annual basis. DIF BROKER considers risk management to be an essential element of its vision and strategy, since it understands that prudent business management is a necessary condition for the pursuit of its goals, guaranteeing the continuous adequacy of its internal capital levels to its needs.

The Company has in place a Risk Management Policy and associated procedures aimed at ensuring the application of a global risk management model based on the four fundamental steps of identifying, measuring, controlling and reporting risk exposures to potential losses. To this end, the Company has risk management practices that promotes:

- The periodic review of the Policy and management and risk procedures by the Board of Directors;
- The proximity of the Board of Directors to the risk control process and encouragement of rapid communication of potential risk situations;
- The formal definition of liability for risk management;
- The permanent implementation and updating of applicable rules and regulations;
- The existence, control and updating of internal control procedures;
- The guarantee of an information system that allows at all times the control and timely detection of deviations;
- The existence and updating of a contingency plan;
- The maintenance of adequate access control systems and segregation of functions;
- An adequate internal control system;
- The rapid detection of situations of non-compliance with laws and regulations;
- The permanent communication and availability to employees of the policies and procedures in force.

The risk management policies, practices and procedures, a fundamental element of the Company's culture, transversal to the whole organisation, are described in the Risk Management Policy and the Company's internal procedures manual.

3.2 Risk Management Governance Model

The governance model of the risk management and internal control system is based on three levels, with the responsible body at the top, the Board of Directors:

At the 1st level, risk management is ensured by all areas of the Company, which employees (and their respective boards) are primarily responsible for identifying, analysing and reporting risks;

At the 2nd level, there are the areas of Risks and Compliance, which are responsible for defining the master lines of the risk management system in accordance with the risk profile and guidelines defined at each moment by the Board of Directors;

At the 3rd Level is Internal Audit, which is responsible for assessing and reporting on the effectiveness of the various components of the internal control and risk management system and possible improvements.

At the top of the pyramid is the Board of Directors, the body responsible for the architecture of the risk management system, for defining and communicating the Company's risk profile and its monitoring, for approving and periodically reviewing the management and risk policy and procedures. The Board of Directors is the supervisory and reporting entity for the various areas that make up the internal control system: Risk, Compliance and Internal Audit, without prejudice to the necessary independence of the three areas. In addition to the essential supervisory role of the Board of Directors, it is also its responsibility to establish the strategic direction of the Company and to define the levels of risk to be assumed at each moment and in each area of activity and maintain an integrated view of exposure to different risk typologies, in particular through the analysis of the periodic reports of control areas.

The Company has a risk manager who reports directly to the Board of Directors. This manager has as main mission to:

- Identify, assess, monitor and propose to mitigate and control all materially relevant risks to the Company;
- Encourage a risk management culture within the Company through the monitoring and disclosure of laws and regulations issued by Supervisory Bodies related to risks and appropriate training;
- Define and disseminate risk management policies and principles;
- Design and review management and risk response processes (includes Business Continuity Plan, risk quantification / aggregation methodologies, internal capital adequacy, among others);
- Contribute to the minimization of losses and optimization of the profitability/risk binomial, serving as support to the decision-making;
- Draw up and send the "Annual Risk Management Report" to the Board, indicating the deficiencies detected and proposing measures to correct them, as well as issuing possible recommendations for improvement;
- Draw up mandatory reports to Supervisory Bodies on risk management (includes Business Continuity Plan, internal capital adequacy, among others);
- Ensure the effective implementation of the risk management system by continuously monitoring its adequacy and effectiveness, as well as the adequacy and effectiveness of the measures taken to remedy any deficiencies in that system;
- Provide advice to the management body and prepare and submit to it and to the supervisory body a report, at least annually, on risk management, indicating whether appropriate measures have been taken to remedy any shortcomings. Identify and establish the present and future material risks associated with the business;

in order to ensure that the level of exposure to risk assumed by DIF BROKER is consistent with the risk profile set by the Board of Directors at all times.

3.3 Scope and nature of risk reporting and measurement systems

DIF BROKER's risk management system is based on a set of principles, strategic actions and processes that promote compliance with global risk management policies necessary to achieve the objectives approved by the Board of Directors.

The objective of the risk management system is to maximise the Group's income per unit of risk assumed, maintaining exposure to risk at prudent levels in relation to the objectives of business development, always respecting the regulatory requirements to which it is subject.

Components of the Global Risk Management Model

The different components of the model are underpinned by a set of tools and methodological supports according to the following:

Risk Management Environment:

- ✓ Risk Management Policy - Definition and formalisation of risk management strategy, principles and policies.
- ✓ Organisational Culture - Definition, characterisation and promotion of an organisational culture conducive to risk management according to the defined strategy.
- ✓ Governance Model - Definition of responsibilities, reporting lines and rules of action for structures involved in risk management.

Organisational Structure:

- ✓ Methodologies - Design and formalization of the models, tools and metrics to be used in the management and monitoring of each risk.
- ✓ Procedures - Description of tasks with concrete identification of actors and tools used, including the tasks of control, monitoring and reporting of risk levels in procedures.

Governance Model:

- ✓ Regulatory information - Creation and documentation of information to be reported to external entities, namely regulators.
- ✓ Internal information - Creation and documentation of information to be used internally to support management.

Documental Structure of the Risk Management System

The risk management system is documented in this policy and is complemented by the following elements:

- ➢ Risk assessment matrix;
- ➢ Procedures defined for each operational area;
- ➢ Internal reports and other risk monitoring media;
- ➢ Reports by Supervisory Bodies on risk management issues;
- ➢ Recording of incidents and losses;

All the documentation mentioned is duly approved by the Board and is periodically reviewed, updated and permanently accessible to all the Company's employees.

Risk Management Process

The integrated risk management of the Company is a continuous and dynamic process that is structured in the following phases: **Identification, Evaluation, Monitoring and Mitigation** of the relevant risks to which the Company is most exposed.

Risk Identification

The identification of risks is approached methodically, through surveys of processes and business units, in order to ensure that all significant activities of the Company are identified and all risks arising from them defined.

Risk Assessment

The assessment of the risks intrinsic to the Company's activity and its controls follows a risk matrix which, for each category of risk identified, defines:

- The probability of occurrence;
- The degree of impact in the event of absence or poor implementation of control in qualitative terms;
- The degree of impact in the event of absence or poor implementation of control in quantitative terms;
- The respective controls implemented (frequency, rating, typology);

The Risk Assessment Matrix (independent document) is reviewed/updated annually at the beginning of each calendar year and whenever any event substantially changes it.

Risk Monitoring

DIF BROKER has systematic exposure monitoring processes for each of the risk categories and produces regular reports with clear, reliable and substantive information. The risk monitoring process is defined in accordance with the strategies and methodologies described in the following sections of this document.

Risk Mitigation

The continuous process of risk identification, assessment and monitoring enables the development, implementation of mitigation actions and plans or risk controls in order to minimize or even extinguish the risk exposure associated with the Company. Risk mitigation procedures, plans and controls are triggered in accordance with their level of risk.

IV. HEDGING AND RISK REDUCTION POLICIES AND THE STRATEGIES AND PROCESSES FOR CONTINUOUSLY MONITORING THE EFFECTIVENESS OF HEDGING OPERATIONS AND RISK REDUCTION FACTORS

DIF BROKER assesses, controls and mitigates each of the risks identified in the following terms:

MARKET RISK ANALYSIS

Risk management framework and principles

Market Risk is directly monitored by the Board of Directors in general and, in particular, by the business management area, which analyses the Company's Assets and Liabilities over time and reports to the Board of Directors for operational and investment decisions.

The established procedures are intended to manage the risks associated with volatility, concentration and intrinsic correlation of financial markets, as well as the associated levels of liquidity.

Risk management procedures and methodologies

Preparation of regulatory reports inherent to market risk, namely the Internal Control Report under BoP Notice no. 5/2008 and ICAAP under BoP Instruction no. 3/2019.

Means of Risk Assessment:

- Calculation of RFPs according to the Standard Method
- Risk Assessment Matrix

Means and areas of control:

- Board of Directors
- Business Management Area;
- Business areas.

Risk Reduction Instruments:

- News on market developments, financial assets, commodities, interest rates, currency and macroeconomic data
- Analysis and Monitoring of the evolution of financial markets, strategies and customer portfolios;
- Existence, implementation and permanent monitoring of the Margin Trading Policy in CFDs available on the Company's website (https://www.difbroker.com/pt/wpcontent/uploads/sites/4/2020/01/ESMA_Informa%C3%A7%C3%A3o-geral-e-adicional_Site_PT_-v2_12.2019-1.pdf);
- Clear information to the market and customers, particularly regarding the risks inherent in trading in leveraged products;
- Control procedures.

INTEREST RATE RISK ANALYSIS

Risk management framework and principles

The control and evaluation of this risk is carried out by the Financial Area. This risk occurs very marginally.

Risk management procedures and methodologies

Preparation of regulatory reports inherent to exchange rate risk, namely the Internal Control Report under Notice no. 5/2008 of the BoP.

Means of Risk Assessment

- Calculation of RFPs according to the Standard Method
- Risk Assessment Matrix

Means and areas of control

- Financial Area
- Business Management Area;
- Business areas.

Risk Reduction Instruments:

- News on market developments, financial assets, commodities, interest rates, currency and macroeconomic data
- Analysis and Monitoring of Financial Market Developments, Strategies and Customer Portfolios
- Control procedures;

EXCHANGE RATE RISK ANALYSIS

Risk management framework and principles

This risk only applies to the business of DIF MARKETS, AGENTE DE VALORES, SA, based in Montevideo, Uruguay.

Risk management procedures and methodologies

The established principles and procedures aim to manage the risk of economic changes in the exchange rate impacting on the consolidation of DIF MARKETS.

Preparation of regulatory reports inherent to exchange rate risk, namely the Internal Control Report under Notice no. 5/2008 of the BoP.

Means of risk assessment

- Effort Tests
- Calculation of RFPs according to the Standard Method
- Risk Assessment Matrix

Means and areas of control

- Financial area
- Board of Directors

Risk reduction instruments

- Monitoring news on market developments, financial assets, raw materials, interest rates, currency and macroeconomic data;
- Analysis and monitoring of financial market developments.

OPERATIONAL RISK ANALYSIS

Background

As far as operational risk management is concerned, it is the responsibility of those responsible for each area to ensure the proper implementation of policies and methods for controlling operational risk in line with the respective procedures of each function.

The established principles and procedures are intended to manage the following risk contexts:

- ✓ Failures in daily procedures resulting from the activity;
- ✓ Occurrence of internal and external fraud;
- ✓ impact on the continuity/integrity/quality of the Company's activity due to outsourcing;
- ✓ Quantitative and qualitative inadequacy of human resources, as well as their inefficient management;
- ✓ Inoperability of physical infrastructure.

Principles of risk management

- Promotion of a culture of risk identification and control in the various areas of company;
- The various areas of the company are responsible, at all levels, for managing, controlling and reducing risks in their areas of responsibility;
- Compliance with operational risk management procedures embodied in an organisational structure that ensures the existence of a demanding segregation of functions with regard to the carrying out and accounting of operations;
- Ensure that human resource strategies are in line with business needs and requirements;
- Ensure the updating of internal processes and procedures, including information flows, segregation of functions and existing controls, as well as services provided by outsourcing companies.

Risk management procedures and methodologies

Means of Risk Assessment:

- Calculation of Capital Requirements according to the Basic Indicator Approach
- Risk Assessment Matrix;
- Process Mapping

Means and areas of risk control:

- Analysis of internal operational risk events;
- Reconciliation of accounts
- Customer complaints
- Audit Reports
- Periodic reports from area managers;
- Incidences recorded in the business support application;

Risk Reduction Instruments:

- Segregation of functions in the execution and accounting of transactions;

- Double checking of key tasks (e.g. opening accounts);
- Insurance policies
- Standardisation of opening and customer contact procedures
- Conciliations
- Historical record in system of all operations performed
- Validation mechanisms for identifying customers to carry out operations
- Carrying out periodic asset inventory
- Increased automation to reduce the human risk inherent in manual tasks
- Control procedures.

RISK ANALYSIS OF INFORMATION SYSTEMS

Background

The control of this risk is carried out by the IT area through the maintenance and security of the software, hardware and network infrastructures, as well as the management of the developments to be made in the information systems and their support.

The established principles and procedures are intended to manage the following risk contexts:

- Lack of synchronization between business strategy and information systems;
- Inflexibility of information systems in terms of changes and their duration;
- Irregularities in access permission;
- Failures in the integrity and continuity of information systems.

Principles of risk management

- Ensure that information systems policies and strategies are in line with, and offer adequate flexibility with, the needs and requirements (current and foreseeable) of the business;
- Safeguarding information systems by means of protection mechanisms, as well as by assigning differentiated access to each employee/area of the company;
- Ensure consistency and coherence between operational information, management information, accounting information and supervisory information produced by information systems;
- Ensure that there is an adequate contingency plan in place regarding the availability and recoverability of information systems, which ensures that hardware, software, data and communications have adequate protection and recovery mechanisms in place.

Risk management procedures and methodologies

Means of Risk Assessment:

- Risk Assessment Matrix

Media and Risk Control Areas:

- Promotion of a culture of information systems security and networking;
- Internal information systems that integrate all operations/business information;
- Information systems support and maintenance contracts;
- Architecture and security (*Firewalls, Application Firewalls, Database Firewalls, Intrusion Detection Systems, Content Management*); Algorithm encryption and coding mechanisms; Digital certificates; Alternative processing infrastructure;
- Daily management of risks and vulnerabilities;
- Alerts on business critical services/operations.

Risk Reduction Instruments:

- Specific software to perform operations;
- Daily information backups;
- Mechanisms for the protection and security of computer applications;
- Existence of user profiles;
- Authorisation procedure and access control;
- Regular external audits;
- Control procedures.

COMPLIANCE RISK ANALYSIS

Background

Compliance risk management is carried out directly by the company's Compliance area, with the help of external legal advice when applicable, and is continuously monitored by the Board of Directors.

The mitigation of compliance risk is complemented by the practices contained in the Company's internal policies and procedures, namely in the "Manual of Internal Procedures", the "Code of Conduct" and the "Money Laundering and Terrorist Financing Policy".

The established principles and procedures are intended to manage the following risk contexts:

- Failure to comply with applicable legislation and violations of internal rules;
- Violation of responsibilities towards third parties;
- Lack or insufficient degree of transparency in company;
- Involvement in money laundering operations.

Principles of risk management

- Ensure adherence to and compliance with laws and regulations issued by Regulatory and Supervisory Bodies, and respond to requests for information from these entities;
- Exercise internal ethical principles and rules of conduct to improve operational efficiency (i.e. Code of Conduct, Manual of Procedures, automation of accounting processes, process standardization, among others);
- To ensure compliance with the rules on confidentiality and treatment of customer information, such as keeping an up-to-date historical record of complaints and legal proceedings brought against the Company;

- To certify the availability of reliable and coherent information to all customers and stakeholders of the company;
- Promote a culture of BCFT prevention through the establishment and implementation of its procedures (training, disclosure of documents and communication forms for suspicious operations, evaluation of the origin of the funds received, movements and transfers requested, among others).

Risk management procedures and methodologies

Means of risk assessment:

- *Risk-based approach*
- Effort Tests
- Risk Assessment Matrix

Media and Control Areas:

- Existence and dissemination of internal regulations and manuals of procedures and conduct;
- Procedures for handling complaints;
- Existence and dissemination of the BCFT Policy and prevention procedures to all employees;
- Promotion of a culture of risk prevention, money laundering and terrorist financing;
- Historical register of complaints, news about the Company and communications from/to Supervisory Bodies;

Risk Reduction Instruments:

- BCFT Prevention Training for all employees;
- Identification and knowledge of all account and validation stakeholders through Lexis-Nexis;
- Computer mechanisms to disable operations by unskilled customers;
- Alerts on suspicious money laundering and terrorist financing;
- Filtering of sanction/terrorist/PEP lists;
- Monitoring of misuse and insider information and analysis of suspected market abuse transactions;
- Mechanisms for monitoring compliance of procedures;
- Legislative and regulatory updating;
- Compliance culture;
- Compliance Reports to the Board of Directors;
- Control procedures.
- Control procedures.

REPUTATION RISK ANALYSIS

Background

All areas of the company contribute to the overall management of reputational risk, as well as to excellence in the provision of services to customers, through the examination, monitoring and control of all other types of risk inherent to each of them, in accordance with current internal documents and ethical principles.

The established principles and procedures are intended to manage the Company's perception in the market and with all its stakeholders.

Principles of risk management

- A culture of transparency and compliance, disseminated and developed internally and externally.
- Monitor the evolution of the customer base and the services provided to them;
- Monitoring and registration of news published about the Company, analysing potential positive/negative impacts;
- Monitor the quantitative and substantive evolution of complaints, as well as the respective monitoring of compliance with deadlines for processing them;
- Existence of monitoring of operational failures that may affect the Company's image (interruptions in the information systems related to customers, production of reports/information that is insufficient and/or not timely to the Supervisory Bodies, among others);
- Ensure a degree of employee satisfaction;
- Continuous monitoring, by the Board, of other issues related to the Company's image.

Risk management procedures and methodologies

Means of risk assessment:

- Analysis of customer complaints
- Analysis of company news
- Risk Assessment Matrix

Media and risk control areas:

- Marketing and Communication Area
- Follow-up of news in the media
- Assiduous commercial monitoring of critical customers

Risk reduction instruments

- Internal documents: Manual of Procedures and Policies, namely, Investor Protection Policy, Order Execution Policy and Conflict of Interest Management)
- Handling and control of complaints
- Monitoring the level of employee turnover and the evolution of dismissals
- Analysis and monitoring of customer portfolio

BUSINESS RISKS

DIF BROKER is permanently attentive to other risks that it calls Business risks, which impact on the Company can be great whenever they occur, which can be summarized in 4:

CONCENTRATION RISK

DIF BROKER bases its activity on the platform of Saxo Bank, its only provider of this service, closely following the evolution of Saxo Bank as a financial entity, as well as evaluating its ratios and performance.

Saxo Bank has proven to be consistently sound and has an excellent reputation, which is why several financial intermediaries base their activity on the provision of Saxo Bank's services.

CUSTOMER RISK

DIF BROKER, because it has no portfolio of its own, is only marginally exposed to most of the risks detailed in this policy, however, through its customers, the company is indirectly exposed to them, particularly in the case of customers investing in derivatives. This is how DIF BROKER has a very conservative margin policy with the aim of ensuring that customers do not go into overdraft and, on the other hand, it regularly warns its customers, particularly when opening an account, of the risks inherent to excessive leverage, particularly market risk, international risk, sector risk, asset risk, information risk.

REGULATORY RISK

The impact of the growing prudential and behavioural supervision that has imposed high regulatory and compliance costs on financial companies in recent years, with particular impact on small and medium-sized companies, which are less able to bear these high costs. This situation is all the more relevant as, in parallel, and in the light of the scheme of freedom to provide services, several companies from other European countries, with lighter regulatory frameworks, are operating in the national market without having to bear part of the national requirements.

EXTERNAL RISK

Economic crisis with repercussions on the banking system with a potential risk of insolvency. If this risk was already a possibility before the current pandemic, it is now exponentiated.

This risk is aggravated by a situation that DIF BROKER has been increasingly concerned about in the past with the implementation of the *Bail-in* system in January 2016, which allows for the possibility of using customer deposits in a possible redemption to banks and which we believe endangers customer deposits in *omnibus* accounts.

V. STATEMENT BY THE BOARD OF DIRECTORS ON THE ADEQUACY OF THE INSTITUTION'S RISK MANAGEMENT MEASURES

The Board of Directors considers that the capital and risk monitoring processes are effective and adequate, taking into account the size, complexity and business model of the Company.

The risk management policy, practices and procedures pursued are based on a conservative stance, reflected in the high levels of capital, and therefore states its understanding that the risk management measures implemented are appropriate to the risk profile and strategy of the institution.

VI. STATEMENT BY THE BOARD OF DIRECTORS ON THE GENERAL RISK PROFILE OF THE INSTITUTION ASSOCIATED WITH THE BUSINESS STRATEGY

DIF BROKER is a small brokerage finance company currently active in four markets: Portugal, Spain, Poland and Uruguay. The company's current situation is the result of a strategy of sustained growth based on a cautious assessment of internal and external circumstances, thus avoiding the increased risks that have always been sought. Thus, the company has no portfolio of its own, nor does it provide credit services to its customers, since it has a clear vision that it is an intermediary that creates the necessary conditions for its customers' investments, their remuneration being exclusively that resulting from the commissions paid by them in return for the services it provides them.

In the same line and based on the conviction that a preventive approach to problems is the best way to avoid them, DIF BROKER has ensured a comfortable and adequate level of equity in order to cope with any adverse circumstances that may occur, such as those arising from the looming structural crisis resulting from the current pandemic.

Finally, DIF BROKER has a robust internal control system based on a well-settled culture of compliance and systematic and effective controls of the various business areas, which, together with the technical and human competence of its employees and close monitoring by the Board of Directors, gives it peace of mind and confidence in the daily management of the business.

Therefore, for all the above reasons, the Board of Directors states that it is its understanding that DIF BROKER is a sound and low risk institution.

Without prejudice to all that has been said, the Board of Directors cannot fail to mention that it is with some apprehension that it sees the near future of the national and global economy arising from the post-COVID-19 economic crisis, the outlines and impact of which have yet to be determined. This will be the challenge that we will all have to face and which, as far as DIF BROKER is concerned, is already being outlined by its directors in accordance with the general rules of prevention and prudence, mottos that have so far yielded good results.

VII. INFORMATION RELATING TO THE CORPORATE GOVERNANCE SYSTEM / RECRUITMENT AND SELECTION OF DIRECTORS / RISK INFORMATION FLOW

The Board of Directors is composed of 4 members, a chairperson and three members, elected for three-year terms. All members are executives with extensive experience in the financial sector. Their choice was based on their experience, integrity, dedication and strong sense of responsibility and diligence. There is no Executive Committee and the positions of Chairperson and CEO are concentrated in the same person.

Details on the composition of the Board of Directors, the number of management positions held by each member, the criteria for recruitment and selection of such members and their knowledge, skills and technical competence can be found in the "Internal policy for selection and assessment of the suitability of the members of the management and supervisory bodies and the relevant function holders" published on the Company's website at: http://www.dif.pt/web/pt_pt/annual-accounts)

The Board of Directors believes that good governance starts with a deliberately transparent and simple organisational structure, with clearly defined lines of responsibility between the various bodies, across all employees.

Taking into account the company's risk profile, prudent management policies and prudential standards, the various departments prepare information reports to the Board of Directors on a regular basis.

Thus, on a daily basis, there is a permanent flow of information on the main management/risk indicators. In this way, in a quick and simple way, the main management bodies have the responsibility to report the main data concerning each department.

Periodically, the Board of Directors receives reports from the control areas on the various areas (Compliance, Risk, Internal Audit), with emphasis on the annual risk report and the report on the internal control system, which also contains the opinion of the external audit.

VIII. OWN FUNDS

The company's own funds are calculated on the basis of Regulation (EU) 575/2013. This Regulation introduced new capital requirements with a view to improving their quality and meeting minimum levels.

The reconciliation between the balance sheet that forms part of the audited financial statements as at 31 December 2019, and the constituent elements of own funds can be analysed as follows:

Headings	**2019 Balance sheet**	**Balance sheet for the calculation of Own Funds**
Intangible Assets	59,424	59,424
Goodwill	674,347	674,347
Assets	733,771	733,771
Share Capital	3,800,000	3,800,000
Own Shares	253,980	253,980
Issue Premiums	125,000	125,000
Other Reserves and Retained Earnings	1,142,878	1,142,878
Fair Value Reserves	855	855
Net Profit	537,089	537,089

Capital	5,351,842	5,351,842

Own funds consist of Tier 1 capital. The main positive elements of Tier 1 capital are paid-in capital, issue premiums, reserves, profit and loss for the year and non-paid up gains on assets valued at fair value. The main elements contributing to Tier 1 capital as negative elements are own shares, negative financial year results and intangible assets. In 2019 the Company does not hold Tier 2 capital.

Capital

On 31 December 2019, the Company's capital is represented by 5,523,750 fully subscribed and paid-up shares with no nominal value.

Share premium

As at 31 December 2019, the issue premiums of 125,000 euros refer to the premiums paid by shareholders in capital increases.

Legal reserve

In accordance with the provisions of article 97 of the General Scheme of Credit Institutions and Financial Companies ("RGICSF"), the Company must set aside a fraction of not less than 10% of the net profits determined in each financial year to form a legal reserve, up to a limit equal to the value of the share capital or to the sum of the free reserves constituted and retained earnings, if higher.

Fair value reserve

Fair value reserves represent the potential gains and losses relating to the available-for-sale financial assets portfolio less impairment recognised in the income statement.

The amount of own funds for the year ending on 31 December 2019 is detailed below:

	Amount at the date of report
Tier 1 core capital: instruments and reserves	
Equity instruments and related issue premiums	3,925,000
Retained earnings	1,088,840
Own Shares	253,980
Other accumulated comprehensive income and other reserves	54,039
Income assigned to owners	537,089
Tier 1 capital before regulatory adjustments	4,813,899
Tier 1 core capital: regulatory adjustments	
Intangible Assets	59,424
Goodwill	674,347
Regulatory adjustments related to unrealised gains and losses pursuant to articles 467 and 468	
Amount to be deducted from Tier 1 core capital with regard to filter deductions additional required prior to the RRFP	
Deductions from eligible FPA1 exceeding the institution's FPA1	
Total regulatory adjustments to Tier 1 core capital	
Tier 1 core capital	4,080,128

Tier 1 own funds	4,080,128
Total own funds	4,080,128
Risk weighted assets	20,346,135
Capital ratios	
Tier 1 core capital (as a percentage of the amount of exposures)	20%
Tier 1 capital (as a percentage of the amount of exposures)	20%
Total own funds (as a percentage of exposure amount)	20%

Own Funds Requirements

The Group currently presents an adequate situation in terms of capital levels, and no restructuring processes or disinvestments in business lines or assets are planned. Adjustments or updates to the business will take place within the framework of normal management and without substantially affecting the policies followed in terms of solvency.

DIF BROKER does not foresee significant changes in its capital utilisation strategy or balance sheet structure. The company will maintain its focus on increasing the customer base and the wider product offering.

In line with previous years, DIF BROKER plans to maintain in the near future a strategy of conservation and strengthening of own funds above the legal limits, and is therefore considering the sale of its own shares.

Taking into account the strategic profile as well as the risk profile of the company, DIF BROKER carries out the Internal Capital Adequacy Self-Assessment Process (ICAAP) annually. In this financial year, capital requirements are calculated for the most materially relevant risks, always taking into account the main investment strategies outlined by the Board of Directors.

Based on the strategic vision and future Investment policies and the Financing and Capital Plan, projections are made of the main Balance Sheet items, namely:

(i) Statement of Financial Position

(ii) Profit and Loss Statement

(iii) Solvability and other indicators

The amounts of capital requirements in ICAAP thus correspond to our best estimate, according to the available information and the Company's estimated balance sheet growth projections.

Risk weighted exposure amounts

DIF Broker, for the calculation of capital requirements, applies the Standardised Method set out in Article 107 of Regulation 575/2013. Under this method, exposures are classified according to counterparty by risk class.

At 31 December 2019, the risk-weighted exposure amounts can be analysed below:

8% of risk-weighted exposure amounts	
Institutions	1,106,053

Companies	4,492
Other elements	31,462
Total	1,142,008

Capital requirements for operational risk

The Company uses the Basic Indicator Approach to calculate capital requirements for operational risk coverage.

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the three-year average of the relevant indicator, as laid down in Article 316 of the Regulation. The items considered for the calculation of the relevant indicator are:

- Interest income and similar income
- Interest charges and similar costs
- Income from shares and other variable/fixed income securities
- Commissions received
- Commissions paid
- Result from financial operations
- Other operating income

For the year ended on 31 December 2019, the capital requirements to cover operating risk are detailed as follows:

	Relevant indicator			
	2018	2017	2016	Requirements for own funds
Basic Indicator Approach	4,830,667	2,443,045	2,221,348	5,934,412

IX. ASSETS FREE OF CHARGE

As of 31 December 2019, the asset encumbrance can be analysed as follows:

	Carrying amount of encumbered assets	**Carrying amount of unencumbered assets**
Equity instruments		
Debt securities	95,273	
Other assets		76,635,606
	95,273	76,635,606

X. EQUITY EXPOSURES NOT INCLUDED IN THE BUSINESS PORTFOLIO

DIF Broker does not invest in shares, nor is it foreseen in its strategic plan.

The accounting heading, financial assets available for sale at fair value through other comprehensive income, includes equity instruments - treasury bonds - which are recorded at the time of their initial recognition at fair value, subsequently changes in fair value are reflected in the equity heading.

Gains and losses on sales of this type of asset are kept under equity.

Further information can be found in the 2019 Report and Accounts.

The companies in which the Company holds an interest (DIF MARKETS, SA and OPTIMIZE, SA) are not listed on the stock exchange.

XI. REMUNERATION POLICY

DIF BROKER has a Remuneration Policy in place, which is in line with best practices and recent trends in the financial sector, both nationally and internationally, with the ultimate aim of discouraging exposure to excessive risks and promoting the continuity and sustainability of the Company's performance and positive results. This policy defines the relationship between remuneration and performance and sets out the criteria used in performance evaluation, as well as the criteria for variable remuneration. In accordance with the Remuneration Policy in force, the annual variable remuneration of directors is determined taking into account the Company's results, performance assessment and market references, safeguarding the different specificities and dimensions, and may reach a ceiling of 200% of the fixed annual remuneration and may be awarded in the form of DIF BROKER shares. The Remuneration Policy is submitted annually to the approval of the Company's General Meeting upon proposal of the Board of Directors.

At the Annual General Meeting of DIF BROKER held on 29 April 2019, no variable remuneration was attributed to the Directors.

Further information on the implementation of the Remuneration Policy, as well as aggregate quantitative data on the remuneration of senior management and members of staff whose shares have a significant impact on the Company's risk profile, are available in the Annual Report, available on the Company's website (www.difbroker.com)

There is no individual remuneration of one million Euros or more.