DIF BROKER

Dissemination of information under Article 431 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council

2018

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The prudential requirements for credit institutions and investment companies in the European Union already contained in the Capital Requirement Regulation (CRR) 575/2013 and Directive 2013/36/EU (Capital Requirement Directive (CRD4)) of the European Parliament and of the Council entered into force on 1 January 2014. Part VIII of the regulation sets out the scope of the disclosure requirements, the frequency and the means. As regards its situation for the financial year ending 31 December 2018, the Company shall disclose to the market the information specified below:

Technical criteria on transparency and dissemination of information

- Risk management objectives and policies (Article 435)
- Own Funds (Article 437)
- Capital requirements (Article 438)
- Assets free of charge (Article 443)
- Remuneration policy (Article 450)

Whenever the information required by Regulation 575/2013 is disclosed in the 2018 Report and Accounts, a reference will be made, the information may be consulted at http://www.dif.pt/web/pt_pt/annual-accounts.

Scope of application

DIF Broker, Sociedade Financeira de Corretagem, S.A., is a financial company wholly owned by private investors, the object of which is to carry out all transactions and allow financial companies, without any limitations of a statutory nature.

DIF Markets, Agente de Valores, SA, owned by the Company, has as its principal object the intermediation of securities transactions. This company is consolidated by the full method.

The group's financial statements include the financial statements of DIF Broker Sociedade Financeira de Corretagem, SA, an activity carried out in Portugal and Spain, where it has a branch, as well as the company identified above, by the aforementioned method.

Risk management objectives and policies (Article 435)

General Policies and Procedure

The Board of Directors periodically reviews the underlying policies, procedures and regulatory changes and seeks to ensure that they are clearly communicated throughout the organisation in order to create the basis for a sound operational environment. The nature of the governance structure for risk and the existence of clear policies aim to ensure that the processes associated with the four key steps in the risk management process: identification, measurement, control and reporting of risk exposures to potential losses, are in line with best management and regulatory practices.

The Board of Directors believes that identifying, analysing, mitigating and transferring risk is not only a security function but adds a competitive advantage.

In managing exposure to risk, the Company is guided by the following basic principles:

• Periodic review of policies, procedures and regulation by the Board of Directors

• Proximity of the Board of Directors to the risk control process and encouragement of rapid communication of situations of potential risk

• Formal definition of responsibility for risk management

• Diversification

• Regulations and standards: implementation and updating

• Internal procedures and controls: existence and implementation

• Information System: implementation and functionality

• Contingency Plans: implementation and effectiveness through periodic testing

• Segregation of functions: appropriate implementation to avoid conflict of interest

• Report on the internal control system - compliance management: risk assessment and internal controls - drawing up on the basis of information obtained from the various areas

• Internal policies: preventing problems of non-compliance with laws and regulations

Key policies and procedures include:

(i) daily control of limits and accounting procedures
(ii) independent reporting and frequent dialogue between revenue generating teams and risk control and support teams
(iii) Proximity of the Board of Directors to the risk control process and encouragement for rapid communication of risk potential situations.

Risk management policies and practices, a fundamental element of the company's culture, transversal to the whole organization, are described in the internal procedures manual.

Government Structure

Responsibility for monitoring risks lies with the Board of Directors and the Internal Control area which controls specific areas of risk.

The Board of Directors combines the various individual functions of control and supervision of Risk Management, and the Compliance area.

Chairing the corporate governance structure is the Board of Directors, which plays an essential role in the supervision of risks and its operation has always been guided by the recognition of adequate controls - both to avoid unnecessary losses and as a means of generating shareholder value in a controlled environment - are fundamental to the financial strength of the Company.

It is the responsibility of the Board of Directors to establish the strategic orientation of the Company and to define accepted risk levels, approve policies, and also maintain an integrated view of exposures to different types of risk.

Market Risk

Market risk represents the possible decline in the value of financial instruments as a result of changes in market conditions. This possibility has no direct impact on the income statement and/or fair value reserves.

DIF Broker does not act directly in the financial markets, does not grant credit and does not have its own portfolio of financial instruments, so the company's management considers the direct impact of a market risk to be zero. However, fluctuations in prices or increased volatility in the financial markets may have an adverse impact on DIF Broker's fee structure.

Operational Risk

Operational risk may arise as a result of failures in inadequate procedures or systems, human risk or external events.

The responsibility for managing operational risks lies with those responsible for the business, which is divided into two classes: operational and technological.

• Operational - analysis of the adequacy of internal procedures, human resources and systems support in the normal conduct of business functions and daily risks to which the Company is exposed, based on self-assessment processes, operational error controls and audit reports.

There is a monitoring mechanism in place which is the real-time monitoring of the operations carried out and the exposure of customers.

• Technological, supervises the adequacy and security of the complex technical infrastructure that supports all aspects of the Company’s internal processing, management information and links with third party information providers and execution services.

Scope and nature of risk measurement systems

The Group is constantly concerned with monitoring and measuring the different types of risk, with a view to mitigating them.

DIF Broker is positioned only as an electronic intermediary, with no ambitions of having its own portfolio, and therefore presents lower risks than its counterparts. Even so, the risks associated with market, compliance, operational, reputation and strategy developments should not be disregarded.

With regard to reporting and measuring the risks to which the company is subject, different metrics are calculated and different internal risk reports are produced and sent to the Board of Directors on a daily basis, as well as Internal Control areas and Back Office and Front Office areas.

The following table summarises the main metrics / controls that the institution uses to measure / mitigate risk:

Risks	**Quantification Techniques/Models**	**Main Controls**
Information	Research, automatic models or newsletters are always limited to analyst's opinion and concept and cannot be considered as guarantees. Before acting according to news or research, the investor is encouraged to make his/her own "due diligence".	Segregation of access and functions. Digital certificates. Alerts on services/operations which are critical for the business.
Operational	Mapping of processes; Basic Indicator Approach	Analysis of the matrices of risks and control of main areas of business; Analysis of operational risk internal events; Reconciliation of accounts; Customer complaints; Audit reports; Periodic reports of area managers; Incidences recorded in a support application to the business.
Concentration	Exposure maps and concentration indexes	Regular checks of exposure to counterparts; Maps of exposure to countries and sectors; Individual and sectoral concentration indexes; Limits of exposure to counterparts.
Information Systems	Risk Self-Assessment; Periodic external audits; Continuous monitoring	Segregation of access and functions; Architecture and security (Firewalls, Application Firewalls, Database Firewalls, Intrusion Detection Systems, Content Management); Mechanism of encryption and coding of algorithms; Digital certificates; Alternative processing infrastructure; Daily management of risks and vulnerabilities; Dashboards of alerts on services/operations which are critical for the business.
Strategic	Regular P&L maps; Monthly MIS (management information system) maps, per business segment, products and sales team.	Regular monitoring of the Company's activity VS objectives of the Board of Directors, shareholder's expectations and analysis of competition; Analysis of scenarios; Framework of the

		Company's results in the face of the stipulated strategic objectives.
Compliance	Risk Based Approach; Internal control mechanisms	Application of monitorization of alerts of money laundering and terrorism financing suspicious operations; Filtering of lists of sanctions/terrorists/PEP; Monitoring of the misuse of privileged information and analysis of suspicious actions of abuse of market; Control mechanisms of compliance with the procedures; Compliance culture.
Reputation	Effort tests	Map resulting from the application of effort tests, using as assumptions adverse scenarios leading to a significant withdrawal of deposits by customers in a short period of time.

Risk reduction policies

The risks which the company is subject to are controlled by daily management and aimed at reducing them. The following table summarises the main mitigation/reduction techniques for the different types and risks:

Risks	Mitigation /Reduction techniques	Description
Operational	Internal policy for process standardization and automation; Self-assessment exercises; Risk impact study of new products (included in Product Approval); Audit reports.	Evaluation of the probability of failures in the analysis prior to the approval of operations, their processing or settlement. Cataloguing of process risks; Management and analysis of Operational Risk events, in articulation with all areas of the company; Aggregated Operational Risk Event Management Reconciliations of accounts; Periodic self-evaluation exercises.
Information Systems	Conducting stress simulations; Regular external audits of the systems; Reassessment of the scalability needs of the systems that support the business.	Contingency planning for IT risks; Review of the Business Recovery Plan; Analysis of the systems and processes that ensure the proper functioning of computer systems.
Strategic	Clear and defined reporting lines;	Involvement in the daily management of the members of the Board of Directors. Analysis of possible changes

	Regular qualitative and quantitative analysis of the institution's performance. Continuous monitoring of the institution's activity; Top management strongly involved in compliance issues; Analysis and measurement of the impacts, by product, associated with the implementation of new national and international regulations and standards; Compliance risk management models;	in the legislative and regulatory environment; Clear strategic vision, which is consistent with the objectives outlined for each business of the Company; Verification of compliance with internal regulations and code of conduct; Implementation of mechanisms to combat fraud; Implementation of reporting mechanisms associated with regulatory guidelines imposed at the national and international levels; Analysis of the risk of Money Laundering and Terrorist Financing. The Risk Based Approach (ML and TF) is an essential management tool in the development of effective and appropriate systems and controls in this area. This approach is based on the assumption of an effective fight against ML and TF, complementing a simple search for regulatory compliance, seeking to channel resources to the analysis of operations, jurisdictions, counterparties and customers according to the inherent vulnerabilities and risks, without prejudice to strict compliance with legal obligations.
Reputation	A culture of transparency and compliance, disseminated and developed internally, and externally.	The institution collects and analyses information, both internal and external, in order to understand and monitor the market's perception of its image.

The Board of Directors considers that the processes for monitoring capital and risks are effective and appropriate, taking into account its size, complexity and business model. The risk management policies adopted by DIF Broker are based on a conservative approach, reflected in the high levels of capital. The company considers that the risk management measures implemented are appropriate to the profile and strategy of the institution.

The Board of Directors considers the preventive approach to problems as the best way to avoid possible contingencies. For this reason, the Group's management and risk taking decisions are conducted on the assumption that a major event can actually occur and DIF must be prepared for it.

The identification of risks is a task that cuts across all employees, and it is the duty of those responsible in the different departments to validate the scope of the risks identified, and to classify them as financial or non-financial risks. Monitoring should also be the responsibility of all employees, and the respective communication should be made to those responsible for the different risk areas, to those responsible for the Group's internal control functions and to members of the Board of Directors.

After identifying the risks inherent to the Company's business, DIF Broker is prepared to act in any circumstance, even in crisis scenarios, where abnormal events may occur.

In addition, the Board of Directors believes that the internal capital is comfortable and adequate in view of DIF Broker's risk profile under current conditions and taking into account the prospects for the near future.

Information on the system of corporate governance, in accordance with Article 435 (2) of the Regulation.

The Board of Directors consists of 4 members, a chairman and three members who control and manage the company directly, on a daily basis. This body is elected for three-year terms and all members are executives with experience in the financial sector. The choice is based on their experience, degree of integrity, dedication and strong sense of responsibility and diligence. There is no Executive Committee and the positions of the Chairman and CEO are concentrated in the same person.

Pedro Lino

Chairman and CEO

With a degree in Economics from Universidade Nova de Lisboa, he began his professional career in 2001. He has over 15 years of experience working for DIF Broker, SA, with extensive knowledge of financial markets. He was a director of Emerging Trade, SA, from 2001 to 2015. He is also a director of DIF Markets Agente de Valores, SA, PP Participações, SGPS, SA, Optimize Investment Partners SGFIM SA, Optimize Investimento SGPS SA and manager of Silverline Consulting Macau, Ltd. He is a member of the Supervisory Board of the Nova BSE Alumni Club and treasurer of the association OPCR - Observatório Português de Compliance e Regulatório (Non-profit Association).

Paulo Pinto

Member of the Board of Directors

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Member of the Board of Directors

With a degree in Marketing Management from the Institut Superieur Economique de Cuesmes in Mons, Belgium, he has more than 16 years of experience working for DIF Broker, SA and more than 23 years in the financial sector. He was the founder of the ATM Associação dos Investidores

Analistas Técnicos (Technical Analysts Investors Association). He is also a director of DIF Markets Agente de Valores, SA, DIF Broker Branch Spain, PP Participações, SGPS, SA and manager of Sociedade Monte da Vinagra, Lda.

Adolfo Alonso

Member of the Board of Directors

He has an academic background in Finance, a Bachelor's Degree in Economics Studies from the University of Alcalá de Henares, Spain and a Master's Degree in Business Management from IESE - Instituto de Estudios Superiores de Empresa of the University of Navarra. He started his professional career in 2001 and has more than 11 years of experience working for DIF Broker, SA. He is also a director of Inverval, Estategias Financeiras, SL.

Pedro Pinho

Member of the Board of Directors

He has an engineering degree and a MBA from Copenhagen Business School. He began his professional career in 1998 and has extensive international experience in financial services.

The information required in paragraph 2(a) of the same Article is set out in the table below.

Number of positions held by the members of the management body:

Board of Directors	**Companies of the group**	**Companies outside the group**
Pedro Miguel de Oliveira Lino	2	4
Paulo Alexandre Marques Mendes Pinto	2	2
Adolfo Alonso Triguero	2	1
João pedro de Dias Gonçalves Pinho	1	

The policy for recruiting board members and their knowledge, skills and technical competence, as well as the policy of diversification in relation to the selection of board members, are contained in the "Internal policy for selection and assessment of the suitability of board members and relevant function holders" (published on: http://www.dif.pt/web/pt_pt/annual-accounts).

With regard to paragraph 2(d) of this article, it should be noted that the ultimate responsibility for monitoring risks lies with the Board of Directors.

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 regular information reports for the Board of Directors.

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.

The entire flow of information inherent to this process is underpinned above all by best management practices and process transparency.

Own funds (Article 437)

Own funds are calculated on the basis of Regulation 575/2013 (Regulation) of the European Parliament and of the Council. Among other things, this Regulation introduced new capital requirements with a view to improving their quality and meeting minimum levels. This regulatory framework comprises a set of transitional provisions allowing the phased implementation of these new requirements, with the competent authorities of the Member States being given the possibility to maintain or accelerate the implementation of some of these requirements, the decisions taken on this matter having been disclosed in Notice 6/2013 of the Bank of Portugal.

The reconciliation between the balance sheet that is part of the audited financial statements as at 31 December 2018, and the constituent elements of own funds can be analysed as follows:

Headings	2018 Balance sheet	Balance sheet for the calculation of Own Funds
Intangible Assets	50,849	50,849
Goodwill	421,303	421,303
Assets	472,152	472,152
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	568,494	568,494
Other Capital Instruments	60,169	60,169
Fair Value Reserves	2,922	2,922
Net Profit	1,093,788	1,093,788
Capital	5,396,393	5,396,393

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 unrealised 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 2018 the Company does not hold Tier 2 capital.

Capital

On 31 December 2018, the Company's capital is represented by 5,523,750 fully subscribed and paid-up shares with no par value.

Issue premium

As at 31 December 2018, the issue premiums of 125,000 euros refer to the premiums paid by shareholders in capital increases.

Legal reserve

In accordance with Article 97 of the General Scheme of Credit Institutions and Financial Companies, approved by Decree-Law No. 298/91 of 31 December, the Company shall allocate a fraction of not less than 10% of the net profits determined in each financial year to the formation of 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 the 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 31 December 2018 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	574,626
Own Shares	253,980
Other accumulated comprehensive income and other reserves	54,038
Income assigned to owners	1,093,788
Tier 1 capital before regulatory adjustments	4,229,684
Tier 1 core capital: regulatory adjustments	
Intangible Assets	50,849
Goodwill	421,303
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	3,827,532
Tier 1 own funds	3,827,532
Total own funds	3,827,532
Risk weighted assets	20,129,445
Capital ratios	
Tier 1 core capital (as a percentage of the amount of exposures)	19%
Tier 1 capital (as a percentage of the amount of exposures)	19%
Total own funds (as a percentage of exposure amount)	19%

Capital requirements (Article 438)

The Group currently presents an adequate situation in terms of capital levels, with no restructuring processes or disinvestments in business lines or assets being foreseen. 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 anticipate significant changes in its capital utilisation strategy or balance sheet structure. The company will maintain its focus on increasing its customer base and product offering.

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

Taking into account the Company's strategic profile as well as its risk profile, DIF Broker conducts the Internal Capital Adequacy Self Assessment Process (ICAAP) annually. In this exercise 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 Approach set out in Article 107 of Regulation 575/2013. Under this approach, exposures are classified according to counterparty by risk class.

As at 31 December 2018, the risk-weighted exposure amounts can be analysed below:

8% of risk-weighted exposure amounts	
Institutions	1,561,873
Companies	29,932
Other elements	18,550
Total	1,610,356

Capital requirements for operational risk

The Company uses the Basic Indicator Approach, in accordance with Regulation 575/2013, to calculate the capital requirements for the coverage of operational risk.

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 31 December 2018, the capital requirements to cover operating risk are detailed as follows:

			Relevant indicator	
	2017	2016	2015	Requirements for own funds
Basic Indicator Approach	2,443,045	2,221,348	2,661,648	4,578,775

Assets free of charge (Article 443)

As of 31 December 2018, the asset encumbrance can be analysed as follows:

	Carrying amount of encumbered assets	**Carrying amount of unencumbered assets**
Equity instruments		
Debt securities	98,301	
Other assets		3,351,134
	98,301	3,351,134

Remuneration policy (Article 450)

The information required under this article is available in the 2018 Annual Report and Accounts, available on the Company's website.

Ratios between fixed and variable pay:

The Annual General Meeting of DIF Broker Sociedade Financeira de Corretagem, S.A. held on 27 March 2018, pursuant to Article 94(1)(g) of Directive 2013/36/EU, approved the company's remuneration policy, which provides for a variable component of the remuneration up to 50% of the fixed remuneration. For the remaining employees, the variable component is also limited to 50% of the fixed remuneration.

Information on the performance criteria on which the rights to shares, options or the variable components of remuneration are based is described in the Remuneration Policies.

Aggregated quantitative data on the remuneration of senior management and members of staff whose actions have a significant impact on the Company's risk profile are available in the Annual Report, available on the Company's website.

The division is as follows for the number of beneficiaries:

Responsible for the risk function	1
Responsible for the control function	2

There is no individual remuneration equal or higher than one million Euros.