PUBLIC DISCLOSURE ON THE SITUATION OF DIRECTA SIM AS AT 31 DECEMBER 2018

GENERAL INFORMATION

The new regulations for credit institutions and investment firms contained in Regulation (EU) No. 575/2013 (hereinafter "CRR" or the "Regulation") and Directive 2013/36/EU (hereinafter "CRD IV" or the "Directive") of 26 June 2013 on the supervision and capital risks of financial intermediaries came into force on 1 January 2014.

In addition, third pillar legislation requires public disclosure of risk controls, capital adequacy and the system adopted by the SIM to manage and control the evolution of its capital and risk coefficients.

The public disclosure is put out with the joint contribution of all business areas that play a part in the policies for defining and managing Directa SIM risk.

Directa SIM's public disclosure document is published on its website at www.directa.it.

RISK MANAGEMENT POLICIES

The entire process of defining risks and measuring them for the purposes of ICAAP processes is the responsibility of the Board of Directors which once a year on the occasion of the approval of the Financial Statements, defines the "internal capital" coverage considered adequate prudentially to cater for each of the individual risks identified by the supervisory regulations.

The ICAAP process so defined follows proportionality criteria and makes estimates of risks and respective coverage based on the specific characteristics of Directa's business, taking into account the experience gained in over 20 years of activity.

All decisions are based on criteria of prudence, the intention being to best combine commercial and capital demands that impose choices aimed at safeguarding the integrity and solvency of clients and, consequently, of the SIM. The main risk is credit risk, namely that associated with leveraged financial instruments which require a margin of guarantee to be established and the possibility that the client may accrue a loss greater than this margin.

The SIM has concentrated its efforts over time on this specific activity, choosing, on the one hand, to maintain substantial margins of a considerable amount with respect to the historical fluctuations of the underlying instruments and, on the other hand, to equip itself with increasingly effective and timely automatic control systems, which have made it possible to intervene expeditiously in all cases in which an adverse trend in prices might produce a loss capable of eliminating the capital present in a client's account.

The other salient component within credit risk is represented by client bank deposits of liquid assets which in recent years have grown significantly as a result of new accounts being opened by institutional clients, a development that has brought in substantial liquidity. An analysis of these aggregates is underway with the Supervisory Authority in order to comprehend the correct weighting percentages to be applied in consideration of the various banking counterparties for which liquidity is kept on deposit, also taking into account that, as has been clarified by numerous competent authorities, third-party funds deposited with banks are not currently subject to bail-in regulations.

Risk exposure, measurement and aggregation methods, stress testing

The SIM has never adopted in-house risk measurement methods or models because it has always considered the standardised methods contemplated by the regulations as being suitable for

correctly representing the business risks of a company like Directa SIM whose business characteristics are extremely simplified and linear, as described in detail in the introduction to this report.
The supervisory reports therefore contain risk calculation methods that are fully compliant with the standard rules laid down in the relevant European regulations.
With regard to ICAAP processes for defining internal capital, it can be said that the standard coefficients represent a basis, a starting point on which are based the assessments of the directors, who define every appropriation on the true risk profile estimate.
In some cases, therefore, there may be significant differences between the coverage required by the supervisory ratios and the coverage estimated by the directors.

The two most evident cases of this quantitative difference are operational risk and credit risk. Operational risks, which are quantified by the standardised method as 15% of the average of the last three years on net lending income, differ considerably from risks estimated on the basis of experience gained over almost 20 years of activity.
The same applies to credit risk, particularly since the value of third-party liquidity on deposit with banks has been included in risk aggregates. As new institutional clients continue to be acquired, with the consequent inflow of significant new liquid assets, the application of standard hedging coefficients produces a credit risk that is disproportionate to the real exposure of the company and the true possibility of "insolvency" that the SIM runs, as explained in more detail later in the document.
When defining the amount of internal capital needed to cover credit risk, the directors refer to the risk of insolvency of counterparties and estimate an amount that is consistent with total loans granted and with the experience gained so far on cases of insolvency that have occurred throughout the history of the company.

The contribution made by the different areas to the monitoring and definition of ICAAP processes in 2018 was on a par with that of previous years.

On a monthly basis throughout the year, the administrative area collected and assembled capital and financial data subsequently used for supervisory reports and for calculating the risk coefficients contemplated by these reports.
Dott. Andrea Busi, previously head of compliance, was appointed as new administrative director in November 2018. At the beginning of 2019, he prepared a summary report on the company's economic and financial performance and on the evolution of risk coefficients during the year. Subsequently, he collaborated actively with the Managing Director in drawing up the guidelines for the two-year business plan, which was submitted to the Board of Directors in January for approval.

During the year, the compliance area oversaw the aggregate data of the supervisory reports, verifying those amounts characterised by a higher degree of criticality. A partial review of the periodic reports, as a result of which all indications provided by the Supervisory Authority during the last inspection were included in the risk calculations, was completed in 2018.

There are no organisational structures external to the company involved in outsourcing ICAAP processes: each activity is carried on in house according to the methodology described above.

The Board of Statutory Auditors has reviewed the budget statements drafted at the beginning of the year by the Board of Directors. During the year, it monitored the company's economic and financial performance, with specific analyses during the periodic checks carried out at the company's offices as per the regulations.

The Internal Audit function oversaw the execution of ICAAP processes, verifying the contribution of the various areas to all supervisory, assessment and decision-making activities relating to the company's capital structure and the respective prudential risks. At the beginning of 2019, it drew up a report outlining its work, which was sent to the directors.

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Risks to which the SIM is subject - 1st pillar risks

The following is a complete list of the risks to which the SIM is exposed in the performance of its investment services.

In addition to what has been set out above, credit risk is the most important in terms of dimensions and the most significant of all the risks to which the SIM is exposed.
Third party liquidity, which, we would remind you, is weighted at 20% of gross value, has completely "saturated" the capacity of "own funds/supervisory capital" value over the last few years, forming an insurmountable obstacle in many cases to the opening of new accounts to institutional clients. As of today, with a total liquidity of approximately 460 million euros, the company cannot allow the contribution of additional funds from new or existing clients.

Loans, the second component of credit risk, are granted after acquiring financial guarantees from clients, for an amount equal to the SIM's credit plus a margin that varies with the degree of collateral risk. Typically it ranges from a minimum of 20% for most blue chips to 50% taking into account the risk tables developed by the Cassa di Compensazione e Garanzia. The margin is adjusted daily on the basis of the reference prices and, in the event of a shortfall, the loan principal is reduced or closed in full through sale of the collateral.

With regard to derivative transactions, the margin system was extensively overhauled in 2018 and early 2019 in order to meet the new requirements for option transactions. With the help of an external supplier (IT Software), a new margin calculation system has been created that evaluates a client's entire portfolio and no longer the individual security, releasing it from the rest of the basket.

In addition, new prudential measures have been implemented to safeguard the fund integrity and

solvency of clients who carry out leveraged operations.
The first of these is represented by programme modifications made to comply with the requirements of Esma regulations for the operation of CFDs. Each order placed by clients is associated with a position-closing stop loss, which is activated when the initial margin falls below 50% of the countervalue.

In addition to the above, the creation of an "ad hoc" account for CFD operations, which will allow further expansion of operational possibilities on these financial instruments, is proceeding apace. In practice, clients who choose this option will be able to set aside an initial amount for CFD trading only. This will constitute the "initial margin" and will allow the account holder to enjoy greater operational flexibility than in the current mode. Stop losses on open positions in fact will no longer be triggered the moment a halving of the margin on an individual stock is recorded, but only when the initial margin (meaning the initial account deposit) falls below the threshold of 50%.

All these new features are the result of the laborious work carried out in the course of the year on the subject of risk management associated with operations on leveraged instruments and are proof of the attention that company management has dedicated to the entire issue.

Concentration risk

This is closely linked to credit risk as it represents "large fund positions" whose value exceeds 10% of the value of own funds.
During 2018, "high risk" positions fell further compared to previous years, with only two cases occurring throughout the year.

Market risk

"First-pillar" risks include market risk represented by fluctuations in prices and interest rates (for portfolio securities) and exchange rates (for stocks quoted in foreign currencies in bank accounts), which are of little relevance to our company.
Directa currently holds in its portfolio minimum quantities of securities for a total value not exceeding 150 thousand euros. These are small lots of shares and bonds of cooperative credit banks with which the company has consolidated collaboration relationships. In addition to these, the company also added a stake in L-Max during the year, which, being less than 10% of regulatory capital, is included in portfolio assets. For these securities, the overall risk calculated according to supervisory ratios is approximately 160 thousand euros (sum of generic risk and specific risk).
The directors estimated the sum of internal capital itself in accordance with the criteria set out in the supervisory regulations.

As regards this aspect, we would point out that in 2018 the new methods for classifying financial assets in accordance with international standard IFSR 9 came into force and their effects were illustrated in the 2018 financial statements. The new classification of assets has not had a substantial impact on the company's financial and capital structure, given the relative insignificance of the investments in question.

As far as exchange rate risks are concerned, they relate almost exclusively to the dollar stocks that the SIM maintains for operations on US markets. During the year, the position was hedged through euro/fx futures or by means of L-Max instruments for amounts that were sufficient to cover the amount of funds deposited with Banca Intesasanpaolo in New York or our broker Viewtrade or with Banca Imi for operations on the CME.
Under prudential regimes, these risks are almost always below the minimum thresholds and therefore no provision is made for them.
On the basis of the hedging activities carried out during the year, a cost of about 100,000 euros was generated, which resulted in a provision of the same amount by the directors when setting up the ICAAP plan.

Operational risks
The type of services provided and the limited dimensions of the company make it possible to minimise operational risks for Directa, first and foremost because of the personnel structure and the way in which the work is organised.
Operating risks are typically related to dysfunctions in processes, human resources or internal systems, or legal risks.

The company's lean structure has always ensured that the exchange of internal information between offices is seamless, and there were no significant staff losses during 2018; whenever something happens or some new legislation is passed, every area manager is promptly informed - at least verbally - of the new procedures and their possible impact on the company's operations, so that each employee or collaborator can be activated quickly.

With regard to potential IT risks and the pertinent precautionary measures taken by the company over the years, it is worth briefly recalling what has already been set out in detail in previous editions of this document, namely that the servers used to collect and transmit orders are located in separate offices (Milan and London) and are equipped with devices that allow interchangeability and alternate use in the event of failure on one of the two machines, to ensure effective “disaster recovery” procedures.
As far as software developers and the risks associated with their departure from the company are concerned, at the moment, the structural conformation requires that the main elements of "know-how" be shared among a number of programmers, so as not to make the presence of any particular individual critical.
With regard to the legal risks arising out of problems, malfunctions and blockages of the system, these are a codicil to the complaints and claims that clients make when problems, mostly of an electronic nature, occur in their daily trading activity. In 2018, total reimbursements were almost negligible and no new lawsuits arose due to problems with the use of the platform.

By contrast, new legal risks have arisen in connection with a dispute with INPS and another with the Ministry of Finance, which were taken into account when quantifying amounts to cover said risks. With regard to the dispute with INPS, an initial ruling went in favour of the company and the outcome of the remaining appeal is now awaited. Despite the positive outcome at first instance, the directors have still preferred to set aside the total amount involved in the dispute to operational risks for an amount of 250 thousand euros.

The same applies to the action against the Ministry of Finance about which the company is confident after the first preliminary hearing, in view of the final discussion scheduled for March 2020 before the Court of Rome. Despite the good chances of success, the amount involved in the dispute (about 50,000 euros) has also been included in risk provisions.

Pillar 2 Risks

Strategic risk

This is linked to the competitive context in which the company operates and is related to an erroneous or inadequate definition of corporate objectives or untimely adjustments to operating contexts.

In a world of swiftly changing scenarios and having to operate in an environment of mounting competitiveness, the SIM has adopted a streamlined procedure for controlling the trend in costs and revenues on a monthly basis, as described in greater detail above.

As 2018 witnessed significant changes in the scenario that impacted the company's bottom line, producing a loss instead of the anticipated profit, it was decided to quantify the strategic risk cover for 2019 in 700 thousand euros, which is the same as the loss reported last year.

Reputational risk

This is represented by possible downturns in profit linked to a worsening of the corporate image with clients, counterparties or Supervisory Authorities.

From the very first moment the company was set up, we have tried to keep this risk exposure to a minimum through a series of business decisions linked to the simplicity of our services and the absence of promoters, as listed in the premises.

Over the years, this corporate approach has made it possible to completely eliminate the risks associated with reputational issues, so that, for the two-year period 2019-2020 also, no provisions have been made in this regard.

Liquidity risk is not currently critical.

The liquidity management procedures described in our previous reports have not changed and are set out in full below.

Most of company liquidity (approximately €7.5 million at 31 December 2018) is held in current accounts with banks and used to support the management of client operations, along the lines of a format already described in previous reports and widely consolidated over the years.

Since 2018, we have significantly reduced the amount of funds we hold with our US broker for the settlement of transactions in dollars.

Another part (about 1.2 million euros of company liquidity although the amount varies) is held on deposit with the Cassa di Compensazione e Garanzia as security for the settlement of stock exchange transactions.

Remaining liquidity can be used in the client financing pool for long overnight activity to replace other financial sources, or in routine activity of advances and payments that characterises bank and supplier management. In total, therefore, there is approximately 6 million euros in available (or easily recoverable) liquidity.

INDIVIDUAL AND CONSOLIDATED RISKS

For the purposes of the provisions of the supervisory regulations, data relating to capital and to risk coefficients are recorded and transmitted every quarter on both an individual and a consolidated basis. The financial and capital data of Directa Service e Futuro Srl are assembled and capital coefficients calculated in order to make up group data.

From the very beginnings of the Directa group, consolidated data have systematically replicated individual data without significantly changing the values calculated individually, especially as regards the part relating to risk "ratios"; by virtue of the particular nature of the activities carried out, Directa Service e Futuro Srl, do not impact either the capital structure or the supervisory ratios.

The table below shows the data as at 31 December 2018 on an individual basis.

OWN FUNDS (art. 437 and 492 CRR)

Directa SIM's own funds defined in accordance with the methods provided for by the supervisory regulations are made up of those assets that previously formed the regulatory capital and are represented by all the positive elements that make up shareholders' equity, from which all the assets that must be subtracted in accordance with the supervisory regulations have been deducted. The table below summarises the composition of "Own Funds" at the date of approval of the 2018 Financial Statements.

	31.12.2018	31.12.2017
Common Equity Tier 1 -- CET1 A. before the application of prudential filters	**14,102,527**	**14,824,558**
of which CET1 instruments subject to transitional arrangements	-	-
B. CET1 Prudential Filters (+/--)	-	-
CET1 gross of the elements to be deducted and the effects of the C. transitional regime (A +/-- B)	**14,102,527**	**14,824,558**
D, Elements to be deducted from CET1	**4,207,188**	**5,156,847**
E. Transitional regime -- Impact on CET1 (+/--)	-	**197,698**
Total Common Equity Tier 1 -- -- F. CET1) (C - D +/-- E)	**9,895,339**	**9,865,409**

G. Additional Tier 1 capital -- AT1 gross of the elements to be deducted and the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional arrangements	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/--)	-	-
L. Total Additional Tier 1 capital -- AT1 (G - H +/-- I)	-	-
M. Tier 2 capital (Tier 2 -- T2) gross of items to be deducted and of the effects of the transitional regime	**2,520,000**	**2,600,000**
of which T2 instruments subject to transitional arrangements	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime -- Impact on T2 (+/--)	-	-
P. Total Tier 2 capital (Tier 2 - T2) (M - N +/- O)	**2,520,000**	**2,600,000**
Q. Total own funds (F + L + P)	**12,415,339**	**12,465,409**

CAPITAL REQUIREMENTS (art. 438 CRR)

To comply with the supervisory provisions on prudential matters, Directa's corporate procedures contemplate the daily control and verification of the capital absorption of each risk and the calculation of the impact on prudential coefficients. Own funds for the entire duration of 2018 were sufficient to comply with the minimum coefficients set by the CRR.

No changes were made to the minimum capital requirements during the course of the year as a result of data collected as part of the SREP.

The item relating to market risks refers to lots of shares and bonds of partner banks from the world of Cooperative Credit in addition to the investment in L-Max which since 2018 has been reclassified under saleable Assets.

The credit risk is mainly represented by loans granted to clients for their leveraged activity and by the total liquidity of clients which is held on deposit in third party accounts. Operational risk, on the other hand, is calculated on the basis of the average net intermediation margin for the last three years, and is substantially stable and linear over the period.

In light of the above, the SIM possesses total risk-weighted assets of approximately 130 million euros as at 31 December 2018 and prudential CET1, TIER 1 and Total capital ratio coefficients higher than the minimum levels required by the regulations.

RISK ACTIVITIES AND SUPERVISORY RATIOS	31-12-2018	31-12-2017
1. Risk-weighted assets	130,258,770	123,901,885
Common Equity Tier 1 / Risk-weighted assets (CET1 2. capital ratio)	7.60%	7.96%
3. Tier 1 equity / Risk-weighted assets (Tier 1 capital ratio)	7.60%	7.96%
4. Total own funds/risk weighted assets (Total capital ratio)	9.53%	10.06%

CREDIT RISK (art. 442 CRR)

Credit risk has been defined in accordance with the standardised method and the SIM has not used internal models for any of the risks to which it is subject.

No internal offsets have been adopted for receivables which are shown at their gross value. For the portion relating to the financing of retail clients and for amounts of less than one million euros only, the risk mitigation techniques provided for by the regulations were applied, after careful analysis of the financing procedures and the acquisition of an external legal opinion.

The distribution of loans essentially concerns three different types of counterparties: the public sector, institutional operators and retail clients. As regards geographical distribution, most of the credits (over 90%) are due from Italian counterparties, while the remainder regard entities in OECD countries and refer to activities carried out abroad in the performance of investment services.

Exposures are all sight exposures and do not involve residual maturity criteria. Below are shown the data on exposures subject to credit risk broken down by macro-category with an indication of the unit and total value as at 31 December 2018.

EXPOSURES TO ADMINISTRATIONS/CENTRAL BANKS	
Tax credits	4,120,322
EXPOSURES TO COMPANIES AND OTHER ENTITIES	
Receivables from group companies	3,647,574
RETAIL EXPOSURES	
Credits from financed clients < 1 million mitigated risk	15,734,911
Receivables from long-financed clients 1 mln	2,307,647
HIGH RISK EXPOSURES	
Credits with non-performing clients	2,221
SHORT-TERM EXPOSURES WITH OTHER ENTITIES OR INSTITUTIONS UNDER SURVEILLANCE	
Credits with banks and clearing houses	432,809,389
Credits with brokers and external suppliers	5,453,192
TOTAL	**464,075,256**

MARKET RISK (art. 445 crr)
Market risk as specified by supervisory regulations is calculated on the positions and securities in the company's portfolio. As explained in the introduction, Directa does not engage in trading on its own account nor does it invest its liquidity in financial instruments of any kind. The only positions held in the portfolio refer to marginal values of shares and bonds issued by some small banks of the Cooperative Credit circuit with which we have good commercial relations, to which we might add the investment in L-Max that the company plans to sell back to the issuer.

OPERATING RISK (art. 446 crr)
To calculate operational risk, the company uses the Basic Indicator Approach (BIA) method which defines operational risk using the standardised regulatory coefficient of 15% of the average intermediation margin for the last three years. As at 31 December 2018, this figure amounted to Euro 1,776,894.

REMUNERATION POLICIES (art. 450 crr)
In compliance with the provisions of the supervisory regulations, in 2014 Directa SIM approved its first document on the company's remuneration policies, which is systematically updated at least once a year and approved by the shareholders' meeting that meets to approve the financial statements.
In view of the principle of proportionality and taking into account Directa's particular organisational situation, the principal measures adopted by the intermediaries in relation to the determination of fixed and variable remuneration in favour of employees and collaborators are not envisaged, since they were not envisaged from the outset.

Directa SIM does not expect to or has ever previously resorted to incentives for employees.
The gross remuneration of each employee shall be determined by mutual agreement between the chairman and the managing director.
Once a year, typically in the years in which the financial statements show a profit and the outlook for the year ahead is good, increases or bonuses can be contemplated, mostly of modest size, ad hoc for each individual employee on the basis of numerous parameters that take into account the length of service, the ability demonstrated and the average level of remuneration within a single area.
No increase or bonus has ever been in any way linked to or bound up with the achievement of objectives, output, business results or performance.
This choice is part of a broader management policy that, among other things, prohibits the use of the services of financial advisors and does not intend to link remuneration in any way to the achievement of objectives, the level of performance, payment of the variable part of a salary, even indirectly linked to parameters such as company turnover, the number of clients or the raising of capital from third parties.
The policy outlined in previous editions, which provides for the absence of any form of incentive or remuneration based on performance and the achievement of objectives, continued in 2018.

The only exception was made in compliance with the indications received from the Supervisory Authority whereby, for the members of the Board of Directors, a variable bonus was introduced as a function of the net profit (where it exceeds at least two million euros) that the Company will make in coming years.

The limited dimensions of the company and, consequently, the degree to which the company's top management has personal knowledge of each employee, has meant that no procedures have been set up over the years to cater for evaluation processes by the managers of company areas, the attribution of point scores and the use of tables or other parameters for the evaluation and possible assignment of bonuses and salary hikes: any such decision has been taken as mentioned above in agreement between the Managing Director and the Chairman.

For the same reasons and in accordance with what is set out in the regulations, no Remuneration Committee has been set up in Directa because the current structure does not require a collegiate body that would be redundant with respect to the current decision-making procedures, which are lean and rather efficient. No stock option plans have been introduced and no shares have ever been assigned to any employee for work done.
No salary is paid other than what is due under the contract of employment or collaboration. For all cases of early termination of employment or for cases of termination of office earlier than the stipulated date of expiry of the mandate.

Relevant personnel
It should first be noted that none of the employees, collaborators, auditors or directors (with the exception of the Managing Director) exceeds the threshold of 200,000 euros in gross annual compensation.

The following is a list of the company's relevant personnel:

- dott.ssa Elena Motta: General Manager;
- Giancarlo Marino: Sales Manager;
- dott.ssa Claudia Pinzi: Organisation and Personnel Manager;
- Alfonso Graglia: Information Systems Manager;
- Claudia De Luigi: Internal Audit Manager
- dott. Andrea Busi: Administrative Director;
- Andrea Messa: Back Office Manager;
- dott. Gabriele Villa: International Development Manager;
- Cristina Di Giore: Customer Service Manager;
- dott.ssa Alessandra Inglese: Anti-money laundering and Market Abuse Manager
- Silvia Pisano: Special Projects Manager
- Carola Montaldo: Business Development Manager
- Dott. Fabio Braida: Compliance Manager

No other professional figures are included among relevant personnel in accordance with the qualitative and quantitative requirements currently in force pursuant to the most recent legislation.

Risk analysis
The impact of the cost of the board of directors and of "relevant personnel" on the total is low and not such as to excessively weigh on or modify and compromise the economic soundness of the company and generate risk.

The Board of Directors costs the company about 550 thousand euros per annum while relevant personnel have a total gross income of just over 1.1 million euros per annum. The latter sum is divided roughly as follows: sales area about 470 thousand euros, organisation, administration and back office 360 thousand, information systems 130 thousand and internal audit 150 thousand euros.

LEVERAGE (art. 451 crr)

Directa calculates the leverage indicator as the ratio between Tier 1 capital and the sum of all balance-sheet and off-balance-sheet exposures, most of which are customer loans for long overnight transactions. At 31 December 2018, the leverage indicator for Directa SIM was 12.56%.