



PILLAR III DISCLOSURE

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PILLAR III DISCLOSURE

With this document, DEGIRO B.V. (hereafter: “DEGIRO”) fulfils the requirements of Pillar III Disclosure. This document is made in accordance with the provisions laid down in the Capital Requirements Directive (hereafter: “CRD”)¹ and in the Capital Requirements Regulation (hereafter: “CRR”)², which have implemented Basel II and III framework at the European level.

1. Legal basis: Basel/CRD framework

The CRD represents the European Union’s interpretation and application of the proposals arising from the Basel Committee on Banking Supervision (BCBS, the Basel Committee), the body that acts as the primary global standard-setter for the prudential regulation of banks. Specifically, this included the provision of a framework for the international convergence of capital measurement standards to be applied across Financial Services Industry European regulated firms other than Insurance Companies.

Capital serves as a loss absorbency buffer for larger than anticipated (or unexpected) losses, as well as to fund the ongoing activities of the institution. The level of capital is a crucial market indicator for potential investors as well as rating agencies and other interested parties (including the general public). As a consequence, most financial institutions are required to hold minimum amounts of capital. Banks and investment firms in particular are subject to the Basel framework, named after the Basel Committee. The Basel framework is transposed into the EU legislative framework through the CRD.

The Basel II framework comprises three Pillars:

- Pillar I: minimal capital requirements for credit, market and operational risk;
- Pillar II: capital adequacy requirements;
- Pillar III: disclosure of information on risk, capital and risk management.

The Basel/CRD framework requires institutions to hold a statutory minimum amount of capital to cover three types of risks:

- Credit risk
- Market risk
- Operational risk

2. Scope and frequency of the disclosure

As an investment firm within the meaning of article 4(2) of the CRR, DEGIRO is required to provide the disclosure required by part eight of the CRR cited. DEGIRO is an investment firm authorised to provide investment services and activities pursuant to article 2:96 of the Act on Financial Supervision (*Wft*) by the Netherlands Authority for the Financial Markets (AFM). The details of the license can be found on [the website of AFM](#).

DEGIRO operates under the prudential supervision of the Dutch Central Bank (DNB). DEGIRO has its registered office and statutory seat in Amsterdam in accordance with its articles of association and it is registered with the Chamber of Commerce and Industry in Amsterdam under the number 34342820.

DEGIRO is a subsidiary³ of LPE Capital B.V. and as such is fully consolidated with it for accounting purposes.

This Pillar III disclosure is drafted on an annual basis and published as soon as practical when the audited annual accounts are finalized. Periodic updates are made public on the website of DEGIRO, including the financial statements of the DEGIRO.

3. Governance

DEGIRO is a wholly owned subsidiary of LPE Capital B.V (hereafter: “LPE”). DEGIRO’s Board of Directors consists of the CEO, CTO, CFRO and COO of DEGIRO.

The responsibilities of the Board of Directors of DeGiro for both financial and non-financial risk management are delegated to the Risk Management Committee (RMC), unless for a decision escalation is required to the Board of Directors.

¹ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

² Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

³ Within the meaning of article 4(16) CRR

The RMC meets monthly and is responsible for the capitalization of DeGiro as well as its financial and non-financial risks. The RMC is also mandated to approve models and methods used to steer the risks. In addition, the RMC ensures that its members have sufficient knowledge and understanding of the risks, policies, (risk) models and methods used. The Board of Directors remains ultimately responsible for policy on and the management of all of DeGiro's risks.

The responsibilities of the Board of Directors of DeGiro for internal and external compliance are delegated to the Compliance Committee (CC), unless for a decision escalation is required to the Board of Directors. Internal compliance handles internal rules and guidelines such as a code of conduct, integrity and security. External compliance focusses on laws and regulation such as MiFID II/MiFIR, MAD/MAR, Dutch Financial Supervision Act (Wft) etc.

The CC manages DeGiro's compliance risks and keeps track of all related regulatory developments. The CC ensures that its members have sufficient knowledge and understanding of the internal and external regulation. The Board of Directors remains ultimately responsible for policy on and the management of all compliance issues.

4. Remuneration

The remuneration policy is based on the following main principles:

- it aims to promote a sound and effective risk management;
- it does not encourage the taking of more risks than is acceptable considering the risk profile of the company;
- it aims to achieve and maintain a sound capital base;
- it is in line with the business strategy, objectives, values and long-term interests of the company; and
- it is designed to avoid conflict of interests.

The remuneration policy is intended to be flexible and is designed to safeguard a sound capital base, while providing sufficient reward to key personnel. The remuneration comprises a fixed component, a variable component and pension benefits. The fixed and variable components of the remuneration are distributed in a balanced way.

The criteria used for calculating the remuneration are aimed at reflecting the link between payment and performance. The employees' performance is yearly evaluated based on their skill, expertise and quality of work, on the results reached and on the degree the pre-fixed objectives have been partially or fully reached. The input for the assessment is provided by the senior management and top management, while the ultimate responsibility for awarding remuneration and benefit lays on the management board in its supervisory function. The fixed component of the remuneration reflects the relevant work experience and organizational responsibility of the respective employee while the variable component is designed as to reflect both financial and non-financial criteria. The variable component of the remuneration for employees is calculated based on a combination of the assessment of the performance of the individual, the performance of the relevant business unit, the overall results of the company and the performance of the group.

Employees engaged in control functions are compensated in accordance with the achievements of the objectives linked to their function and in such a way that their objectivity and independence is not compromised.

The variable remuneration of all the employees is calculated taking into account the financial achievements of the company in the previous year and a projection on the regulatory capital requirement for the next year. The variable remuneration may be paid partially in financial instruments and may be subject to retention and/or deferral over a period which is deemed appropriate in light of the risk framework.

5. Risk Management and objectives

DeGiro is part of the LPE Group. The risk management department is a group function that manages risk on the LPE Group level and licensed financial enterprises that are subsidiaries of the LPE Group. It also ensures that risk is managed properly. The risk management department is independent of all operational and business functions and is managed by the Head of risk.

The following safeguards are in place to ensure the independence of the risk management function:

- The risk department reports through the risk committees to the respective board. Separate risk committees are set up for the relevant licensed entities and one at the level of the LPE Group.
- The employees of the risk department are supervised by the head of risk.

- The separation between the risk management function and operational functions/portfolio management is reflected in a corresponding separation of duties within the respective boards.
- The decisions made by the risk department with respect to the risk management functions are based on reliable data sources that are independently used by the risk employees.

Once the key risks have been identified, their financial impact is assessed as a part of the business capital management process. This is ensured through the Internal Capital Adequacy Assessment Process ("ICAAP"), which constitutes a regular internal assessment of the amount of capital necessary in order to cover all the risks an institution faces or could face. The ICAAP is expected to paint a complete picture of the financial institution's risk profile. The ICAAP is conducted by LPE Capital B.V., the parent holding of DEGIRO, once per year. It is reviewed by the senior management, approved by the Management Board of LPE Capital B.V. and submitted to the national regulator for review. During the yearly review, the Management Board makes an evaluation based on the identified risks of the previous year, newly identified risks during the year, changes in the regulatory landscape and business development. The Compliance, Risk and Finance & Control departments of the LPE Group are involved in this process. On the basis of the overall process described above, the relevant identified risks are monitored through the implementation of specific and tailored controls at the operating level. The management of the risks identified at the business and micro-business level is performed by the departments involved under the supervision of the Director responsible for the risk function.

6. Declaration on the adequacy of risk management arrangements

The Board of Directors has assessed the adequacy of risk management arrangements of the firm. Based on this assessment, the Board of Directors deems the overall risk management system adequate with regard to DEGIRO's profile and strategy. This statement is intended to comply with the provisions of Article 435(1)(e) CRR.

7. Identification of key risks

FINANCIAL RISKS

The financial risks DEGIRO is exposed to relate to the existing balance sheet exposures. DEGIRO has identified

- credit and counterparty risk,
- market risk,
- concentration risk,
- liquidity risk.

Credit and counterparty risk:

The risk that the company will incur a loss because its clients and/or counterparties fail to fulfil their contractual obligations (e.g. in the case of loans).

DEGIRO is exposed to credit risk in relation to:

- the provision of fully collateralized margin loans to its clients (Debit Money);
- debit securities;
- clients' derivatives positions; and
- money held in regular banking accounts or in brokerage accounts.

The risk arising from the first three sources is mitigated through the use of collateral. Collateralized loans to retail clients, securities margin and clients' positions in derivatives contracts (futures and options) are secured (through a right of pledge) by realisable listed financial instruments as collateral. Most of the collateral consists of listed equity shares and bonds with good liquidity on the relevant stock exchange.

DEGIRO provides loans within certain limits based on the value of the securities held in the client's balance. This value may differ based on the different client profile. DEGIRO computes a substantial risk margin on the market value of the collateral in order to protect itself and its customers against credit losses and "overleveraging". In order to control the credit risk associated with money lending, securities margin and derivatives positions, DEGIRO has in place adequate systems administered by its risk department. Specifically, the risk model of DEGIRO calculates the market risk attached to the collateral on a real time basis. This reduces to the minimum the risk of due or impaired exposures. A risk deficit procedure is in place and is activated by the risk department in case of breach of the risk limits by a client.

DEGIRO keeps at banks or brokerage accounts a limited amount of cash. In order to mitigate this risk, DEGIRO monitors the ratings of the brokers..

Market risk The risk that a (negative) difference occurs between the obligations and assets of the financial institution as a consequence of market movements. Main types of market risks involved: interest rate risk and equity price risk. Currently, DeGiro aims to have zero market risk. Positions are not part of the business model and are closed as soon as feasible. Out-trade positions are supervised and reported to the director responsible for trading on a daily basis or immediately if the trade is significant. Risks that exceed the risk budget are pre-approved by risk.

Concentration risk (event risk) The risk that a company has significant exposure to a particular event, instrument or client across different lines.

Concentration risk occurs when single clients hold the same positions that combine to a single large (exposure) position. DeGiro aims to diversify its client base so no individual customer can generate more than 5% of the annual return.

Accounts with large risk exposures are continuously monitored. Furthermore, the risk department continuously monitors the market situation with respect to the largest exposures. Market liquidity and price volatility are key factors when scoring the risk category in which a financial product belongs. This labelling causes less liquid products are not eligible assets as collateral nor can they being shorted, limiting potential shortfalls and consequential losses. The Risk manager can at any time change the risk bucket for a certain product making it impossible for certain products to be treated as eligible collateral

Liquidity risk The risk that a company may be unable to meet short-term financial demands. The overall liquidity risk is considered low due to the type of business.

NON-FINANCIAL RISKS:

OPERATIONAL RISK

Operational risk can be defined as the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. DEGIRO strives to minimise operational risks through the creation of processes as efficient as possible. Hereafter, the key operational risks which have been identified:

- IT Risk;
- Approval Risk;
- Human error risk;
- Risk of business disruption;

IT risk the IT risk is the risk that the IT systems are not functioning correctly (IT availability risks) because of failing computer hardware/equipment, insufficient processing capacity during peak moments, errors/inaccuracies in the software, invalid (erroneous or corrupted) data.

An additional component of the IT risk stems from the increased dependence on IT systems. The high level of dependency of the business on IT processes and systems magnifies the risk of financial and/or reputational damage in case of service disruptions and system failures. It also constitutes a growing source of risk with respect to cybercrime. The highest 'uptime' sensitivity with regard to the IT system is the order execution for clients of DEGIRO, as clients make use of the systems of DEGIRO for their brokerage services and on a daily basis an average of 60.000 transactions are executed through the systems. A small disturbance in the system can already impact the amount of hindrance for clients.

This risk is adequately monitored through three different set of measures respectively operating at the level of the management of the infrastructure, of its development and at the level of the operational controls.

As for the first set of measures, due to its modular system and design, the system can be easily switched to a backup system in case of crash or malfunctions. Hardware are configured in such a way that replicated databases are located on different locations/systems. Separate backup locations for data and IT systems are located in secondary offices and data centres. At the level of the development of the infrastructure, any change in the system and in the software application is subject to the 4-eyes principle. At the level of the operational controls, continuous and real-time monitoring of IT system performance is in place. In case of system malfunction, this is addressed through specific human intervention by an in-house specialised team, while orders can always be place by phone emails.

Approval risk The risk that the approval model includes an arbitrage or has not been processed correctly in the IT systems, or is not correctly applied by the IT systems. If materialised, this could lead to clients of DEGIRO taking positions (risk exposures) exceeding the net liquidation value of their account. The approval risk is directly linked to the functioning of the risk model and may be related to a technical component, meaning that the automated component of the risk approval process is not performing or

functioning properly, to an operational component, which takes place in case of incorrect interpretation of risk model output and improper monitoring of model performance and to a model risk component, meaning that the model performs a correct calculation and monitoring of risk parameters, but incorrect modelling of the actual risk.

In order to mitigate this source of risk, the risk model and its development is constantly monitored by the risk department. Every new functionality of the risk model is tested and formally accepted by the risk department, which also reviews the risk limits when required and in any case periodically.

Human error risk The risk related to the failure by relevant employees to detect or prevent an error while doing their job. Even in high technological density organizations, automated processes need a certain level of control by humans. The risk of human failure may lead to severe consequences when related to trade/dealing errors in the process of manual order execution, errors in the process of transactions/positions reconciliation, errors in the processing in/out-coming cash transfers, errors in corporate events processing, other operational processing errors. In order to mitigate the risk of possible human errors, DEGIRO makes application of the 4-eyes principle at an extensive level. Furthermore, for key processes, control functions are spread among different employees/role functions, and if necessary the authorization of the management. View, insert and authorization right are separated. Systems and process monitoring in real time for deviations in values, trades and bookings, monitored by risk managers and IT staff to detect anomalies in back-office processes.

Risk of Business disruption The risk that a crisis or emergency situation may arise due to an extraordinary event, force majeure, etc. that can impair communication lines, equipment, the office location.

DEGIRO and the LPE Group have sufficient capacity and capability in their offices both in terms of systems and personnel, as a result of which limited disruptions in particular areas at the headquarters may be ameliorated quickly. In the event of a total loss of the headquarters or of a major catastrophe impairing the ability of the system to work in the main office location in Amsterdam, the relevant data and operational systems (e.g., trade and account data and modified versions of its market data, credit vetting and customer authentication capability) necessary to provide clients with prompt access to their funds and securities are available at a secondary location outside the main office. Furthermore, in case of permanent/temporary loss of employees, equipment and office locations, the two secondary office locations (respectively in Sofia, Bulgaria and in Hong Kong, People's Republic of China) will assist in the performing of the functions that can be performed there. Furthermore, the Key Staff and the Management Board are always able to resume and carry on the business outside the Office through the use of laptops connected to servers.

STRATEGIC RISK

The risk that any changes to the business or regulatory landscape will have an adverse effect on the company's business activities.

Continuity and dependency risk: The risk that the business continuity of the financial institution is jeopardized in the event that a (small) number of customers leave or the service provision by a third party stops. For DeGiro, this risk holds for the service provided by third parties: brokerage, clearing, custody and payment services. A large part of the service provision is standard and can therefore also be provided by other third parties. DeGiro is constantly investigating the possibility of expanding and improving its services and introducing new third parties to do so. For important markets backup is in place.

Legal risk: The risk that applicable laws are amended and that this makes it impossible to execute existing business models. This risk is adequately mitigated through monitoring of upcoming laws that can have impact on the business processes; for complex cases, legal advice is sought from external legal and compliance advisors. Main contracts are managed by Legal departments with help from the legal advisor.

Liability risk: The risk that the financial institution is held liable based on the services provided to its customers. This risk relates to liability claims by clients. Generally, liability claims could occur in the cases that clients deem that they have received the wrong / incorrect services. This typically happens if there are issues with the IT infrastructure or the administrative processing of corporate actions. This risk is adequately mitigated through strong control measures around the IT infrastructure and approval risk. DeGiro holds a relatively large client base, of which a relatively small number holds positions with a size from which a large claim can be expected. DeGiro's agreements with its clients contain liability limiting clauses that are the consequence of malfunctions with the Webtrader/IT systems.

INTEGRITY RISK

The risk of loss of reputation, legal sanctions or material financial loss as the result of failure to comply with any prescribed or statutory rule (external as well as internal)

Integrity risk The risk that employees commit fraud, that clients receive services that should not be provided on the basis of applicable regulations or that clients misuse or abuse provided services to develop unauthorized or illicit activities. As DeGiro provides licensed investment services to clients, the risk for DeGiro the potential impact of DeGiro is high, as it can lead to severe reputational damage which can strongly impact the position of the company in the market. This risk is adequately mitigated through adequate policies and procedures which are in place at the group level, i.e. the Code of Conduct, the Conflict of interest policy and procedure; a pre-employment screening process has been implemented to prevent employee risks. Furthermore, Chinese walls and segregation of functions mitigate the risk of conflict of interests. In addition, the 4-eyes principle is widely used at the all operative levels together with an operative structure in which view, inserting and authorization rights are separated.

Compliance risk The risk of non-compliance with applicable law and the enforcement thereof can be a threat to business continuity. This could result in disciplinary measures by regulators up to the suspension/termination of the license. Depending on the severity of the measure, on the possible publication of it, DEGIRO could suffer as a result of it a significant financial and/or reputational damage. In the worst-case scenario, to the termination of the business in case of license withdrawing. In order to mitigate the compliance risk, employees working in the business lines and in the operational departments are made aware of the importance of the importance of the compliance with laws and regulations and are made sensible on their roles of first compliance enforcers. Compliance, Risk and Finance & Control departments help through interpretation and implementation of law, supervision, awareness, advising and formulation of policies on the basis of their specialized activities; knowledge about laws and regulations is built and maintained in-house, and compliance memos are created for urgent and complex topics; laws and regulations are implemented in the business operations through processes and procedures. Periodical compliance meetings are held in order to adequately control any possible compliance risk. Expert backup and advice regarding regulations from legal adviser having expertise in financial and security laws. Adequate Incidents Policy and procedures are enforced at the level of the LPE Group.

8. Capital Requirements

LPE qualifies as the parent undertaking or financial holding⁴ of its licensed subsidiaries, including DeGiro, and is therefore subject to consolidated prudential supervision by DNB and as such prepares ICAAP document. In accordance with articles 95 and 97 CRR, LPE's Pillar I capital requirement is determined based on the Fixed Overheads Requirement (FOR). LPE calculates its own funds requirement based on the FOR since the calculation performed with this method exceeds the total of credit risk and market risk, as referred in article 95(2)(b) CRR. LPE holds eligible capital of at least one quarter of the fixed overheads of the previous year. Pillar II capital requirements for all individual risks are calculated aggregating the risks and assuming no diversification benefits between and within the non-financial risk categories operational risk, strategic risk and compliance risk. The ICAAP capital calculated according to the mentioned method amounts to EUR 8,869,000 for the year 2018. SREP add-on requirement of EUR 1,069,200 results in the minimum required capital of EUR 9,938,200. LPE meets the above-mentioned requirement as outlined in its audited financial statements.

⁴ See CRR, EU/575/2013 Article 4 1.(20)