DE GIRO

PILLAR III DISCLOSURE

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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 (Directive 2013/36/EU) and in the Capital requirements Regulation (Regulation (EU) No 575/2013), which have implemented Basel II framework at the European level.

1. Legal basis: Basel/CRD framework

The Capital Requirements Directive ('CRD') represents the European Union's interpretation and application of the proposals arising from the Basel Committee. 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 on Banking Supervision, the body that acts as the primary global standard-setter for the prudential regulation of banks. The Basel framework is transposed into the EU legislative framework through the Capital Requirements Directive (or 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 art. 4 (2) of Capital Requirements Regulation [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], DEGIRO is required to provide the disclosure required by part viii of the regulation cited. DEGIRO is an investment Firm authorised to provide investment services and activities pursuant to article 2:96 of the Act on Financial Supervision by the Netherlands Authority for Financial Markets (AFM). The details of the license can be found here:
https://www.afm.nl/nl/professionals/registers/alle-huidige-registers/beleggingsonderneming.aspx?q=DEGIRO&index=0&id=3708F58C-68A1-E011-A203-005056BE6692&all=1 .
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 subsidiary[1] 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.

3. Governance

DEGIRO is a wholly owned subsidiary of LPE Capital B.V. It is governed by its senior management and by its directors and by the senior management and directors of LPE Capital B.V. The Board of Directors of DEGIRO B.V. maintains the overall responsibility and approves the firm's strategic objectives, risk strategy and internal governance. The relatively plain structure of the internal governance of the firm and the limited number of employees, gives the Board of directors a great level of insight and requires active involvement in the operational processes of the Company and in the daily decisional processes. In addition to this,

[1] Within the meaning of article 4 (16) Regulation (EU) no. 575/2013.

oversight and governance of the Firm's operations and related risks is maintained through various reporting structures and forums, which ensure that the risks of the firm are properly identified, quantified, and managed. The relevant risks inherent to each operational process are constantly monitored and assessed by the Board of Directors, and any deficiency is immediately addressed in cooperation with the competent department. The Board of Directors also ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards. This objective is guaranteed through adequate reporting lines established between the departments in charge of the preparation of the financial accounts and statements and the Board of directors. The Board of Directors is the ultimate responsible for the financial accounting and statements and oversees the whole process of financial accounting. This disclosure has been approved by the Board of Directors of DEGIRO, as is any disclosure or communication relating to the company, including but not limited to communications with supervising authorities, disclosures required by law, and any other external communication which can significantly affect DEGIRO. The Board of Directors effectively supervises the senior management by constantly providing its input in the daily management and in the decisional processes in which the latter is involved.
Dr. ir. Jasper Anderluh and Drs. Niels Klok, CFA serve as directors of DEGIRO. As policy makers, they have been assessed by the AFM in accordance with art. 4:10 Wft. They also hold the directorship of the following subsidiaries of LPE Capital B.V.:

- HiQ Invest B.V., a licensed Company acting as fund manager of UCITS and AIFMD funds;
- HiQ trading and Liquidity Providing N.V., a licensed investment firm owned at 100% by HIQ Invest Market Neutral Fund (one of the AIFMD funds managed by HiQ Invest B.V.).

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

The Board of Directors is responsible for the identification of the key risks DEGIRO is exposed to and for setting the overall risk appetite, profile and objectives.
Due to the nature and (relatively small) size of the Investment firm and of the LPE Group, the Management

Board and key personnel are involved in all the main processes. Due to the strong involvement of the Management Board and key personnel, newly arisen risks in evolving processes can be quickly identified and control measures implemented. The Management Board is regularly updated by key personnel on new risks arising in their area of expertise. 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 (or 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 Board of directors 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)) of Regulation (EU) No 575/2013.

7. Identification of key risks

FINANCIAL RISKS

The financial risks DEGIRO is exposed to relate to the existing balance sheet exposures. DEGIRO is exposed to credit risk, market risk and concentration risk.

Credit Risk is the risk that a firm will incur a loss because its clients or counterparties fail to discharge their contractual obligations.

DEGIRO is exposed to credit risk in relation to:

- the provision of fully collateralised margin loans to its clients (Debit Money);
- debit securities;
- clients' derivatives positions; and
- cash kept at banks.

The risk arising from the first three sources is mitigated through the use of collateral. Money 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 consist 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 a limited amount of cash. This is for the sole purpose of disposing of the cash necessary in order for transactions that are the result of human or system errors to be settled in its own prime brokerage accounts and not in the accounts held by Beleggersgiro, a special purpose vehicle used for holding clients' positions. In order to mitigate this risk, DEGIRO only selects credit institutions with investment grade credit ratings and prudent capital ratios.

Market risk can be defined as the risk of losses with respect to on and off-balance sheet positions arising from adverse movements in market prices. DEGIRO is exposed to market risk in relation to the market value of the collateral on margin loans provided to clients and to non-trading book exposures. This risk is addressed by the real time calculation and assessment of the market risk attached to the pledged clients' collateral positions, based upon dynamic collateral valuation algorithms, by taking into account current exposures and potential future exposures based on potential market movements. The risk department is responsible for this.

Concentration risk (event risk) concentration risk arises where material groups of exposures are related to the same risk factors. The concentration risk is an event risk and can materialise in case of sudden market movement impacting existing risk exposures and offsetting collateral values. In such a case, full liquidation is not possible at the anticipated price level as the combined position to liquidate is too large for the market to absorb at once, meaning that liquidation will occur at lower price levels. This risk can arise when the combination of different clients' positions may give rise to a single large exposure. In such a case, even if the approval process worked correctly, the risk of a financial loss may arise. This type of risk affects DeGiro only in relation to the use of collateral, as clients' positions are held by Beleggersgiro (a special purpose vehicle used for asset segregation purposes in accordance with Dutch law).
The approval system is designed to anticipate the event-risk. The event risk is incorporated in the risk model as one of the main elements for the determination of the risk. The risk system determines the event risk for each underlying value in the client's balance, the event risk of the underlying value with the highest event risk is included in the risk calculation. An event risk of 50% (upwards and downwards) applies for shares for which there is sufficient liquidity and of which the issuing institution has sufficient market value. For government bonds, an event risk of 10%, upwards and downwards, is used for countries that are sufficiently creditworthy according to the standards applied by DeGiro. The level of the event risk for each underlying value is regularly updated, so that interim changes in the level of the event risk can be identified.
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 bucket 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

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;
- Concentration risk;
- Human failure 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 (**IT dependency risk**). 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 30.000 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 the two secondary offices of Sofia and Hong Kong. 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. 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 is the risk that approval systems are not functioning, as they should. 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 failure risk is the risk related to errors or inaccuracies by employees while discharging their duties. 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.

Risk of Business disruption is the risk that a situation of crisis or emergency may arise due to an extraordinary event, force majeure, act of god etc. which 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 there performed. 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.

COMPLIANCE/INTEGRITY RISK

Integrity risk is the risk of the company being involved in non-ethical or improper behaviour by employees or third parties. This can lead to severe reputational damage and financial damage (for example in cases of fraud, or fines). This risk may result from a combinations of personnel risk (the risk related to improper employment practices, unethical behaviours put in place by employees, unauthorised trading practices, insider trading by employees), the risk of internal or external fraud, the risk of conflict of interests. 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 interests policy and procedure. 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 is the risk of failing to meet regulatory and statutory obligations. 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 advise 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

In accordance with articles 95 and 97 CRR, DEGIRO's Pillar 1 capital requirement is determined based on the Fixed Overheads Requirement ("FOR"). DEGIRO 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 art 95 (2) (b). DEGIRO holds eligible capital of at least one quarter of the fixed overheads of the previous year. The calculation is based on the audited financial statements of the previous year and it is performed by subtracting from the total expenses the cost items listed in art 34b (2) Delegated Regulation (EU) No 241/2014. The minimum eligible capital calculated according to the mentioned method amounts to EUR 959,252 for the year 2015. DEGIRO meets the above-mentioned requirement as outlined in its audited financial statements.