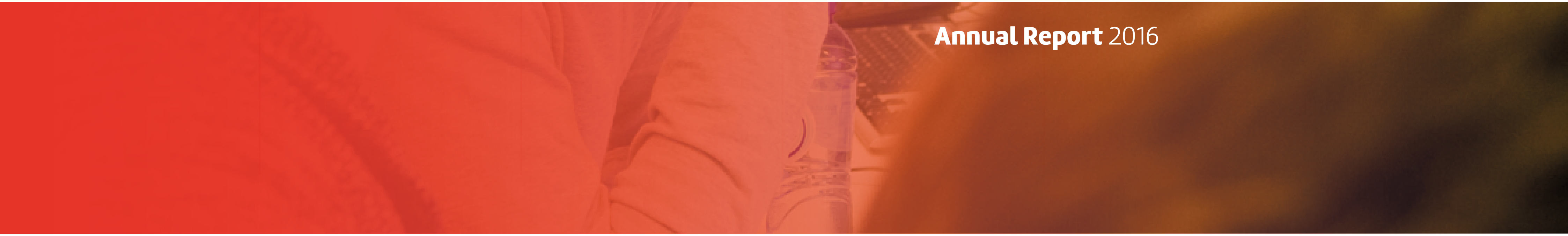
FLOW TRADERS



# Annual Report 2016

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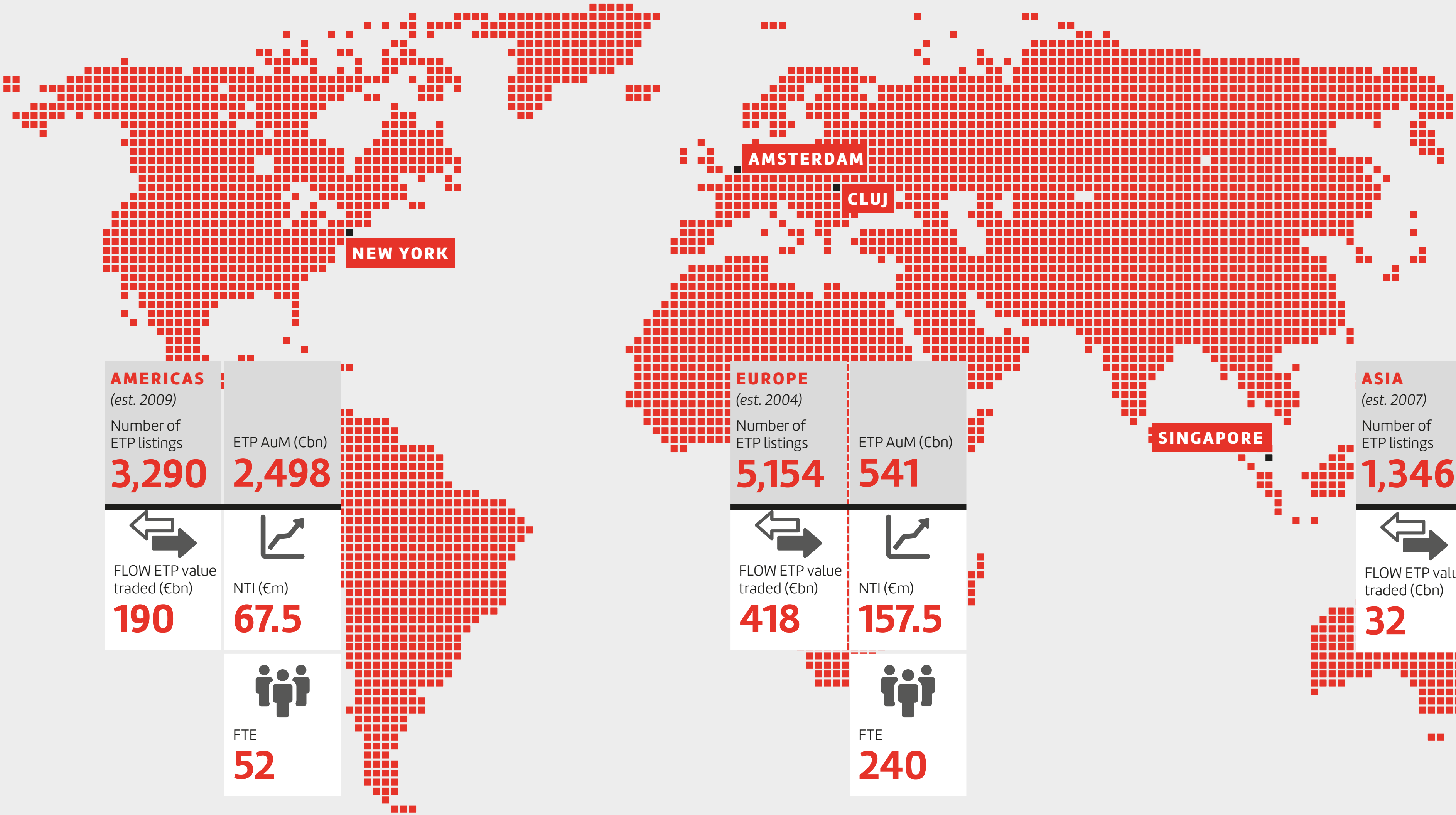
# Flow Traders at a Glance

## 2016 BY NUMBERS

| | | | |
|---|---|---|---|
| Global ETP Assets under Management (AuM) (€bn) | 3,323 | +25% | 2015: 2,667 |
| Global ETP value traded (€bn)* | 21,287 | -0% | 2015: 21,302 |
| Flow Traders ETP value traded (€bn)* | 640 | +6% | 2015: 603 |
| Net Trading Income (NTI) (€m) | 250.0 | -18% | 2015: 304.7 |
| FTEs | 341 | +27% | 2015: 268 |
| EBITDA (€m) | 118.7 | -2% | 2015: 121.6 |
| Adjusted EBITDA (€m) | 118.7 | -24% | 2015: 156.7 |
| Net Profit (€m) | 91.9 | -5% | 2015: 97.3 |
| Adjusted Net Profit (€m) | 91.9 | -28% | 2015: 128.4 |

* *Note that the comparative figures are restated based of Flow Traders Market data.*

# Flow Traders at a Glance




## AMERICAS
*(est. 2009)*

Number of ETP listings
**3,290**

ETP AuM (€bn)
**2,498**

FLOW ETP value traded (€bn)
**190**

NTI (€m)
**67.5**

FTE
**52**

## EUROPE
*(est. 2004)*

Number of ETP listings
**5,154**

ETP AuM (€bn)
**541**

FLOW ETP value traded (€bn)
**418**

NTI (€m)
**157.5**

FTE
**240**

## ASIA
*(est. 2007)*

Number of ETP listings
**1,346**

ETP AuM (€bn)
**283**

FLOW ETP value traded (€bn)
**32**

NTI (€m)
**25.0**

FTE
**49**

# Flow Traders at a Glance

## 2016 FINANCIAL OVERVIEW

*In thousands of euro*

| | | | For the year ended |
|---|---|---|---|
| | 2016 | Adjusted 2015 | 2015 |
| ***Net Trading Income*** | **250,004** | **304,719** | **304,719** |
| | | | |
| Personnel expenses (fixed) | 25,928 | 21,457 | 21,457 |
| Personnel expenses (variable) | 58,404 | 87,920 | 121,136 |
| Technology expenses | 34,762 | 27,477 | 27,477 |
| Other expenses | 12,181 | 11,136 | 13,001 |
| ***Operating expenses*** | **131,275** | **147,990** | **183,071** |
| | | | |
| ***EBITDA*** | **118,728** | **156,729** | **121,648** |
| | | | |
| Depreciation of property and equipment | 5,948 | 6,307 | 6,307 |
| Amortization of intangible assets | 364 | 471 | 471 |
| Write off of (in)tangible assets | 2,775 | 457 | 457 |
| ***Operating result*** | **109,641** | **149,494** | **114,413** |
| | | | |
| Revaluation of equity-accounted investees | (199) | 696 | 696 |
| ***Profit before tax*** | **109,442** | **150,190** | **115,109** |
| | | | |
| Tax expense | 17,506 | 21,832 | 17,818 |
| ***Profit for the period*** | **91,936** | **128,358** | **97,291** |
| | | | |
| Net trading capital | 343,277 | 339,641 | 339,641 |
| Regulatory capital | 270,092 | 246,548 | 246,548 |
| Regulatory Capital Required | 168,200 | 94,000 | 94,000 |
| Excess capital | 175,077 | 245,641 | 245,641 |
| | | | |
| **KPI** | | | |
| EBITDA margin | 47.5% | 51.4% | 39.9% |
| Number of outstanding shares | 46,534,500 | 46,534,500 | 46,534,500 |
| Basic and fully diluted earnings per share[1] | 1.98 | 2.76 | 2.09 |

[1] *The earnings per share over 2015 have been calculated as if it had outstanding shares over the full year of 2015.*

# Profile

## Who we are

We are a leading global technology-enabled liquidity provider, specialized in Exchange Traded Products (ETPs). Our trading desks in Europe, the Americas and Asia provide liquidity across all major exchanges, globally, 24 hours a day. With 346 employees (341 FTEs) at year-end, we continued to build our organization in 2016. Founded in 2004, we continue to cultivate the entrepreneurial, innovative and team-oriented culture that has been with us since the beginning.

## What we do

As a technology company operating in a financial services industry, we use our proprietary technology platform to quote bid and ask prices in thousands of ETP listings, as well as similar financial products. We also provide liquidity to institutional counterparties off-exchange across all regions. Liquidity provision makes markets more efficient and transparent, promoting better execution quality and lower overall trading costs for market participants.

As a principal trading firm, we trade for our own account and own risk only. We do not have clients, nor do we provide any investment services or ancillary services to others.

Our strategies are designed to use information that is publicly available and we use fairly simple, non-controversial and transparent order types. We are a strong supporter of fair, transparent and orderly markets. We derive our Net Trading Income from the small price differences at which investors are willing to trade ETPs or other financial instruments and those of the underlying or related financial instruments at which we hedge the resulting exposures. We do not have a directional opinion on the markets and aim to be hedged perfectly and instantaneously. This focus on risk management is at the heart of our organization, and our risk functions are closely integrated into our platform.



# Message of the Management Board

2016 was our first full year as a listed company and our second best year since inception. While the markets – in terms of activity – never reached the levels they achieved in 2015, with a decline in volatility and trading activity by investors, we continued to focus on building for our future and expected growth. We continuously invest time and resources in further optimizing our infrastructure, expanding our already highly skilled and capable teams by hiring new talent, and growing the number of products we trade across all regions. At the same time, we fine-tuned the tools and processes required to be fully compliant amongst others with MiFID II.

***Market developments***

The market in 2016 was slower than the previous year, with a more risk-averse attitude within capital markets leading to declining volumes in equities and increased ETP value traded in fixed income. A series of macro-economic developments, such as Brexit, elections in the US and Japan, and the federal funds rate decision path had an impact on trading appetite across the globe by investors being more sidelined towards these events.

***Capitalizing on opportunities***

ETP Assets-under-Management kept growing strongly over 2016. While market conditions were slower, we increased our exposure to a broader range of products and markets, supported by a number of technological improvements. In the third quarter we established an Institutional Trading operation in the US and Asia, enabling us to expand our trading capacities and pricing power by providing liquidity off-exchange and with institutional counterparties directly. This brings our US business more in line with our European franchise, where we are currently connected to over 550 counterparties. In Asia, we invested in new technologies and systems while strengthening our team to be able to successfully increase our product coverage in the region. These investments will help us better position ourselves for future growth in the fast growing ETP market, and we expect to see the results reflected positively in our Net Trading Income during the 2017 course.

***Preparing for MiFID II***

At the same time we continued to prepare for the introduction of new regulations like MiFID II, which will take effect at the beginning of 2018. The new regulations will help promote fairness and transparency in the financial industry. We believe they will benefit the ETP sector, creating more visibility into the size of the market and providing a level playing field in terms of requirements, processes, and controls.

***Appointment CFO***

As of 1 October 2016 Marcel Jongmans joined the company as a Management Board Member and Chief Financial Officer. The Supervisory Board regards Marcel Jongmans to be very well qualified to fulfil this role and thinks he presents a natural fit within the Management Board given his skills, previous role, experience, background and personality. During his first three months, Marcel Jongmans met many colleagues and is quickly accustomed within the company.

***The next steps***

As we move through 2017, we will continue to focus on evolution and growth. We will roll out technological improvements at our Asia business, open an office in Hong Kong, concentrate on expanding in the US, while delivering strong organic growth and aiming to provide liquidity in all ETPs, irrespective of the underlying asset class, in Europe. With a view to diversification, we continuously assess whether we can provide liquidity into other product categories like, for example, Currencies.

Looking back on another successful year, we would like to thank not only the entire team at Flow Traders, but also our shareholders and other stakeholders for their support and contribution.

*Regards*,

Dennis Dijkstra, Marcel Jongmans and Sjoerd Rietberg

*Dennis Dijkstra ,Sjoerd Rietberg (Co-CEOs) and Marcel Jongmans (CFO)*

# Share Information

**Flow Traders N.V. shares are listed on Euronext Amsterdam and are included in the Amsterdam Midcap Index (AMX), carrying a weight of 2.54%. Flow Traders shares are included in several other indices as well, issued by leading issuers like MSCI, (several MSCI Small Cap indices), FTSE, (FTSE Developed Europe All Cap Net Tax index) and STOXX (STOXX Europe Total Market Price index).**

## Introduction and key figures

**KEY SHARE INFORMATION**

| | |
|---|---|
| ISIN | NL0011279492 |
| Bloomberg ticker: | FLOW NA |
| Reuters ticker: | FLOW.AS |
| Number of shares outstanding | 46,534,500 |
| Free float (Euronext definition)* | 60% |
| Market cap at year end (€m) | 1,523 |

*Source: Euronext as per 31 December 2016.*

* *Note that free float increased to 75% (Euronext definition) as a result of a transaction announced on 15 February 2017.*

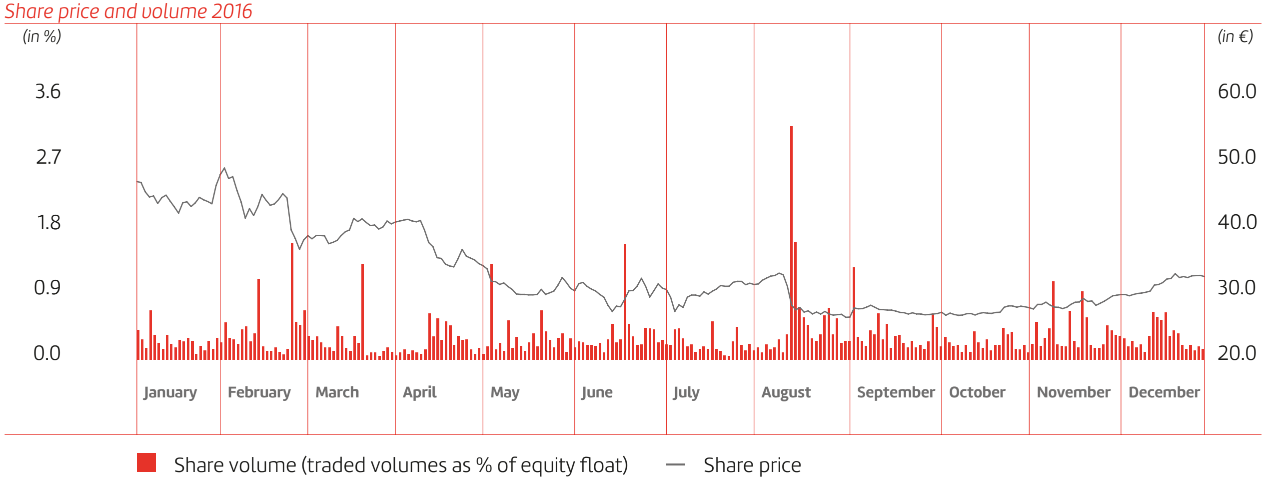
## Performance and key figures

**KEY FIGURES PER SHARE**

| | |
|---|---|
| Earnings per share | €1,98 |
| P/E ratio | 16.53 |
| Interim dividend per share | €0.55 |
| Final dividend per share | €0.70 |
| Total dividend per share 2016 | €1.25 |
| Dividend yield | 3.8% |
| Year-end share price* | €32.74 |

* *Source: Euronext, based on year-end closing.*

*Share price and volume 2016*



**VOLUMES**

| | |
|---|---|
| Total annual volume | 22,640,000 |
| Daily volume - high | 890,036 |
| Daily volume - low | 13,492 |
| Average daily volume | 87,789 |

*Source: Bloomberg.*

**SHARE PRICE PERFORMANCE**

| | |
|---|---|
| Opening price 1 January 2016 | €45.39 |
| Annual highest price (closing) | €49.32 |
| Annual lowest price (closing) | €26.50 |
| Closing price 31 December 2016 | €32.735 |

*Source: Bloomberg.*

### *Analyst coverage*

The following analysts cover Flow Traders as of 31 December 2016:

| Institution | Analyst |
|---|---|
| ABN AMRO | Ron Heijdenrijk |
| Bank Degroof Petercam | Michael Roeg |
| Credit Suisse | Martin Price |
| Exane BNP Paribas | Gregory Simpson |
| Kempen | Joost de Rijk |
| Morgan Stanley | Anil Sharma |
| UBS | Daniele Brupbacher* |

* *Daniele Brupbacher handed over coverage to Michael Werner as per January 2017.*

## Financial calendar

| | |
|---|---|
| Trading update first quarter 2017 | 17 May 2017 |
| Annual General Meeting | 24 May 2017 |
| Ex-dividend final dividend 2016 | 26 May 2017 |
| Record date final dividend 2016 | 29 May 2017 |
| Payment date final dividend 2016 | 31 May 2017 |
| Reporting half year 2017 results | 28 July 2017 |
| Proposed ex-dividend date interim dividend 2017 | 4 August 2017 |
| Proposed record date interim dividend 2017 | 7 August 2017 |
| Proposed payment date interim dividend 2017 | 9 August 2017 |
| Trading update third quarter 2017 | 8 November 2017 |

## Dividend policy and dividend proposal

### *Dividend policy*

Flow Traders intends to pay dividends annually in two instalments, with a target aggregate dividend pay-out ratio of at least 50% of the company's net profits realized during the financial year. The Management Board may decide, with the approval of the Supervisory Board, that the profits realized during a financial year will fully or partially be appropriated to increase and/or form reserves.

A distribution of (interim) dividends is subject to applicable rules and regulations, the Articles of Association of the company, the By-Laws of the Management Board, and the By-Laws of the Supervisory Board.

It is anticipated that our interim dividends will be declared and paid following the publication of our results for the first half of each year. However, there can be no assurance that in any given year a dividend will be proposed or declared.

The payment of dividends, if any, and the amounts and timing thereof will depend on a number of factors, including future profits, financial conditions, general economic and business conditions, future prospects and such other factors as the Management Board, subject to the approval of the Supervisory Board, may deem relevant as well as other legal and regulatory requirements. Our intentions in relation to dividends are subject to numerous assumptions, risks and uncertainties, many of which may be beyond our control.

The Management Board, subject to the approval of the Supervisory Board, may decide to make allocations to reserves and therefore decides how much of the profit will be allocated to reserves. The profits remaining shall be at the disposal of the General Meeting.

**Reserves and dividend proposal for the financial year 2016**

Pursuant to Article 24.1 of the company's Articles of Association, the Management Board, with the approval of the Supervisory Board, has decided that of the profit for 2016 (totaling €91,9 million), an amount of €33,7 million shall be added to the reserves. The remaining amount of €58,2 million is at the disposal of the General Meeting.

It is proposed to the General Meeting that a total cash dividend of €1.25 per share will be paid out to shareholders for the financial year 2016, subject to a 15% dividend withholding tax (*dividendbelasting*). An interim cash dividend of €0.55 per share has been paid out on 7 September 2016. This means that the final cash dividend proposal to the General Meeting is €0.70 per share. Subject to the approval by the General Meeting on 24 May 2017, shares will trade ex-dividend on 26 May 2017. Payment of the final dividend is anticipated to be made on 31 May 2017. Please also refer to the Dividend Policy section in the chapter Our Governance.

## Investor Relations

Investor Relations (IR) focuses on optimizing the communication and understanding between Flow Traders and the investor community, its advisors and the analyst community. By attending broker conferences, organizing roadshows to institutional investors after Half Year and Full Year results, organizing investor conference calls, analyst days and the General Meeting, Flow Traders further optimizes the information stream to the market.

Flow Traders has a corporate website (www.flowtraders.com) where its financial calendar, press releases and dividend policy can be found. IR is the first point of contact for interested investors, shareholders and analysts.

**INVESTOR RELATIONS CONTACT DETAILS**

**Serge Enneman**

| | |
|---|---|
| Telephone | +31 20 799 6799 |
| E-mail | investor.relations@flowtraders.com |

# Our Management Board

**Flow Traders has highly experienced management and a unique team-driven culture. Our Management Board consists of Dennis Dijkstra (Co-CEO), Marcel Jongmans (CFO) and Sjoerd Rietberg (Co-CEO).**

*Dennis Dijkstra – Co-CEO*

*Dennis Dijkstra* joined our company as CFO in 2009 and was appointed Co-CEO in January 2014, focusing on risk management, HR & recruitment, Institutional Trading, relationships with issuers, legal & compliance, relationships with regulators and organization structure. Prior to joining Flow Traders, Dennis held positions at Arthur Andersen, Faxtor Securities, NIBC and Sparck. He is currently a supervisory director of Think Capital Holding BV, a Dutch ETF issuer in which Flow Traders holds a 24% strategic passive minority interest, and he serves as a board member (treasurer) of APT, the Association of Proprietary Traders in the Netherlands.

Dennis Dijkstra is a Dutch national who holds a Master's degree in Business Economics from the University of Amsterdam.

*Marcel Jongmans – CFO*

*Marcel Jongmans* joined our company as CFO in October 2016, focusing on finance & tax, investor relations, clearing, mid-office and internal audit. He held positions at MeesPierson, Fortis Bank and ABN AMRO Clearing Bank N.V., at which he served as CEO for 12 years prior to joining Flow Traders. Marcel holds no ancillary positions.

Marcel Jongmans is a Dutch national who holds a Bachelor's degree in Business Economics from The Hague University of Applied Sciences (HES).

*Sjoerd Rietberg – Co-CEO*

*Sjoerd Rietberg* joined our company in 2005 as a senior trader and was named Head of Trading in 2009 and COO in 2010. He was subsequently appointed Co-CEO in January 2014, focusing on trading operations, trading strategy, technology and business development. Sjoerd holds no ancillary positions. Prior to joining Flow Traders, Sjoerd Rietberg held a trading position at Newtrade Derivatives.

Sjoerd Rietberg is a Dutch national with a Master's degree in Finance from Erasmus University Rotterdam.

# Our Business

**We provide liquidity in exchange traded products (ETPs), which are baskets of securities made up of shares, bonds, or commodities. ETPs often track indices and, unlike most mutual funds, can be traded throughout the day on trading venues. We do this globally, enabling investors to buy and sell ETPs efficiently by quoting bid and ask prices under virtually all market circumstances.**

## Markets & Trends

### *Our business*

We trade in well over 10,000 financial instruments, and have access to more than 100 trading venues in 35 countries around the world. We provide liquidity in almost 5,000 ETP listings on- and off-exchange.

Off-exchange, we provide liquidity in ETPs on a request-for-quote basis to over 550 institutional counterparties across the globe, including banks, asset managers, pension funds, insurance companies, family offices, hedge funds, and others in 35 countries and their number increases almost daily. Besides ETPs, we provide liquidity in similar instruments, whose value is correspondingly affected by a change in the value of their underlying assets.

As a liquidity provider, we do not have an opinion on the market. In other words, our results don't depend on the direction of market prices. We make our Net Trading Income from the small price differences that investors are willing to buy or sell ETPs and other financial instruments, and the prices we pay or receive for the underlying or related financial instruments.

### *The ETP market*

The popularity of ETPs continued to increase over the recent years. According to asset manager BlackRock Advisors, global ETP Assets under Management (AuM) grew from €453 billion in 2006 to €3,323 billion by the end of 2016. And this growth is expected to continue, with sources such as BlackRock, PwC, Boston Consulting Group and EY predicting the market will more than double to €6 trillion by 2020, as investors continue to seek out low-cost passive investment strategies.[1]

We believe there are a number of reasons for this: one is that investors are attracted to the transparent nature of ETPs, which enables them to follow clearly how the underlying securities are performing. Another is that ETPs are liquid and available at low costs, and can be bought and sold easily during market hours. A third reason is that ETPs can be composed of financial instruments from almost any asset class, sector or location, giving investors access to markets that would normally be difficult to reach.

### *Review of 2016*

Global ETP markets continued to gain strength and grew by 20 percent in 2016 measured in AuM. Annual global inflows of ETP AuM were €345 billion (2015: €316 billion), driven by record investments in fixed income products and a recovery of equity products in 2H 2016. Overall trading activity in 2016 was rather limited compared to other years, as investors remained side-lined due to macro-economic developments, such as Brexit and the US elections. Net inflows were high in fixed income products and throughout the year we saw some swings in flows in Equity ETFs. These ETFs were subject to market developments which resulted in large outflows in 1H 2016, of which some returned in 2H 2016.

[1] *Sources: Blackrock Global ETP Landscape (2016 Year in review - December 2016), PwC "ETF 2020 - Preparing for a new horizon" and "ETFs: A roadmap to growth", EY "Global ETF Survey 2015" and "Global ETF Survey 2016".*

## IMPLEMENTATION OF MIFID II

*Name* ***Randolf Paling***

*Position* ***Co-Head of Trading, Amsterdam***

# *'I'm confident we will adapt well to the changes MiFID II will bring to the markets'*

*While MiFID II represents a considerable challenge, it also represents a significant opportunity for firms to improve their organisation and way of doing business. What possibilities and opportunities does it offer Trading?*
In general, MiFID II is designed to create more transparency in the market. Currently many liquidity providers, such as Flow Traders, are not visible to the outside world. Increased visibility will provide investors with a clearer overview of who they are trading with. For example, if an investor trades via a bank and the bank executes the trade via a liquidity provider like us, the investor may legitimately ask why the bank is still involved as a middleman. Why not trade directly with Flow Traders? Then of course there are the savings investors will make, as they currently have to pay banks a commission, and under MiFID II this commission needs to be clarified. Additionally, many of the smaller trading firms will have to find additional resources to implement and comply with the new requirements, while the banks might not be efficient enough to easily implement the requirements. This could impact a level playing field and the barriers to entry the markets. Consequently, we expect that MiFID II will make the market more efficient, as market participants will essentially have to guarantee investors the best price. This means that investors will benefit from sharper prices, and the firms delivering the best price will attract more business.

*How has the Trading environment prepared for the introduction of MiFID II?*
We've worked closely with the Compliance, Risk and Technology departments to develop feedback that the regulators could consider as they drafted the new regulations. This ensures that any new legislation reflects the actual market situation, improves the market spaces, and doesn't stifle the market. So we were very active in the discussions. And we have also worked closely with the project management team internally to ensure that our systems are ready for the changes, and that the traders are aware of any issues that will affect them.

*MiFID II introduces new rules that will apply to market makers that use algorithmic trading, including high frequency trading strategies. Can you explain how this will impact the Trading function?*
Regulators believe that algorithmic trading has the potential to cause rapid and significant market distortion. MiFID II introduces closer regulation and monitoring of algorithmic trading, imposing new and detailed requirements on algorithmic traders. We need to ensure we comply with all relevant regulations, while doing our work as a liquidity provider efficiently by providing the markets – and ultimately the investors – with transparent prices. I think MiFID II will enable us to continue to achieve that.

*Does Trading face any challenges as a result of MiFID II?*
Greater transparency on pricing could lead to investors looking to do business with other market participants, so for us that could certainly lead to bringing more professional counterparties onboard, highlighting that we are providing the best prices in the markets. So we expect that MiFID II will make the market less attractive for some of our current competitors and new market entrants. This will provide an opportunity to expand into their market position. A lot of it will depend on how well firms adapt to the new regulatory landscape.

*What will MiFID II deliver?*
Will there be more or less trading? It's difficult to say. It will likely increase transparency in all asset classes, especially in those that are currently harder to track, such as FX and bond markets. In general, as a relatively small company we are flexible and very well suited to a wide range of changes in market circumstances. I'm confident we will adapt well to the changes MiFID II will bring to the markets.

Flows in fixed income were €105 billion (2015: €84 billion) signifying a 25 percent growth that can be largely attributed to investors' appetite for better investments in fixed income themes through ETFs.[2]

### *Global coverage*

We trade globally from three offices, in New York, Amsterdam and Singapore. The largest ETP market is in the United States, where total ETP value traded (on-exchange and off-exchange) was €18.3 trillion in 2016[3]. Our New York office's total ETP value traded was €190 billion in 2016, the highest level for Flow Traders US since inception. This was partially the result of the start of the Institutional Trading department during 3Q 2016, following the grant of the FINRA membership.

The EMEA ETP market, the world's second largest, had a total ETP value traded of €973 billion in 2016[4]. Our total ETP value traded at our Amsterdam office was €418 billion in 2016.

In APAC, the ETP market is still fragmented, with large differences in trading volumes, trading costs, regulation and maturity across the financial markets. Additionally, the volumes traded in the APAC region are dominated by the top-10 most traded ETF products, as those 10 determine 65-70% of the total market volumes. The total ETP value traded (on-exchange and off-exchange) was €2 trillion in 2016[5], while the total ETP value traded at our Singapore office was €32 billion.

[2] *Sources: Blackrock Global ETP Landscape (December 2016), PwC "ETF 2020 - Preparing for a new horizon" and "ETFs: A roadmap to growth", EY "Global ETF Survey 2015" and "Global ETF Survey 2016".*

[3] *Flow Traders analysis.*

[4] *Flow Traders analysis.*

### *High growth market*

We see significant opportunities for growth, driven by the widely expected expansion of the ETP industry. This is down to a number of changes within the asset management industry, including:

- The continuing shift to global electronic trading, which cuts costs and maximizes efficiency and transparency;
- A shift in asset growth from active strategies to more cost-effective, passive strategies;
- Increasing ETP adoption globally among institutions, intermediaries and retail investors;
- Long-term shifts driven by regulators looking to increase financial stability and transparency, such as MiFID II.

To take advantage of this expected growth, we aim to expand our presence further in all areas of ETP trading in all regions.

In Europe we continue to grow our presence on the different venues and grow the number of counterparties. We have now established a connection with virtually all issuers active in Europe and we continued to grow our Institutional Counterparty-base substantially.

In the Americas, where our current market share is relatively limited but growing, we believe there is significant growth potential in fixed income ETFs, developed market equity ETFs and institutional trading going forward. We will expand the number of products traded, the number of venues in the US and the number of counterparties we are connected to.

[5] *Flow Traders analysis.*

In Asia we continue to increase our participation in the markets where we are already active and expand into new markets. At the same time, we remain focused on markets that are potentially opening up, such as China, by capitalizing on our experience and increasing our business development capacities. In order to facilitate our future growth, we will open an office in Hong Kong to increase our footprint and visibility in the region, to support our Institutional Trading and to confirm our role in the ETP ecosystem in the region.

In general, we believe growth can accelerate in all regions in the coming years, as the markets in Europe further develop electronic trading, and given that the shift to electronic trading has penetrated less than half the market in Europe so far. In the Asian markets electronic trading is still rather limited and regulation is still very local. In the Americas we expect that markets will respond to further changes to regulation.

## Products

### *ETPs*

ETPs, the main products that we trade, are often compared to mutual funds mainly because they're both baskets of shares, bonds, or commodities. However, that's where the similarity ends. Unlike most mutual funds most ETPs simply track an index without trying to beat such indices. ETPs have open-ended fund structures rather than closed-end and, unlike mutual funds, can be continuously bought and sold on trading venues during trading hours and off-exchange after trading hours.

## IMPLEMENTATION OF MIFID II


*What are the main areas in which Risk Management has prepared for the introduction of MiFID II?*
Our main focus areas have been on pre-trade controls, such as price bands, maximum order size, and repeated automated execution throttles. At the same time, the regulations require us to perform real-time trade monitoring for signs of disorderly trading, as well as implementing post-trade controls, trade reporting, trade publication, and change management from a Risk Management perspective.

Although MiFID II itself is a completely new regulation, we already had many of the requirements in place through guidelines, best practice procedures, or because of earlier regulations. We haven't had to prepare from scratch.

*What challenges or opportunities does MiFID II pose for Flow Traders and others?*
In terms of challenges, capturing all the order data is one of the main ones. For example, we could send out over 100 million orders to the market each day. These have to be captured. And this doesn't even take into account the related market data that we need to process each day. We are the perfect example of a firm that faces big data challenges, having to store all of our order history to comply with the regulations. Another issue is that we're not alone in being more heavily regulated. Other market participants – such as exchanges, venues, and brokers – are also impacted by MiFID II, and all have their own data requests. This is why close cooperation along the chain is so important.

For example, exchanges are required to conduct a yearly due diligence. The exchange has to collect more information from market participants, and since we are trading on more than 100 venues, this could significantly impact our workload. However, we are in close contact with the exchanges and discuss the interpretation of the regulations. Sharing information helps us find the best solution.

In terms of opportunities, it is difficult to predict what they may be for such a comprehensive new regulation. However, the general purpose of MiFID II is market transparency. And as a market maker, transparency is one of the things we most focus on. When the entire market becomes more transparent, more order flow should become visible, benefitting firms such as Flow Traders. In addition, if more information is available we could improve the pricing of our instruments, which will make us even more competitive, benefitting investors.

*How involved have you been in preparing other departments for MiFID II's introduction?*
We've been very involved since day one. We work closely with the Compliance department to interpret and translate the regulations into day-to-day business requirements. We're currently working with the Technology department to create the required tooling and we also have people in the Risk department developing some of the software we will need. We are already a very risk-aware firm, so in many ways we view these regulations as being an extension of our normal business practices.

*What do you see as being the main benefits of MiFID II to the company and industry?*
Regulators are getting to know us even better, and have a better understanding of our industry. And MiFID II is the first time that the regulators have specifically mentioned high-frequency and algorithmic trading in their regulations. This is positive. We are seeing more acceptance and understanding of our business and the current electronic markets, and this is reflected in the regulators' position. We are different from banks, and therefore regulators should not copy-paste regulations from the banking industry and apply them directly to us. We view ourselves as a technology company operating in the financial sector. We believe in having an open, mature relationship with all market participants, and one aspect of that is having regular discussions with regulators to explain what we are doing and where our challenges lie.

*And how comfortable are you with the introduction of MiFID II?*
The most difficult issue will be ensuring everyone makes the deadline, and being able to show the regulators that we have properly documented all of the required processes. Aside from that, I am very comfortable with where we are. We are very much on top of the regulations so the main unknowns for us are the external market participants.

They provide investors with exposure to a wide variety of underlying assets, ranging from ETPs that replicate the composition of a particular equity index, to those that provide investors with exposure to assets in specific sectors or countries, to commodities, or to currencies. ETPs also enable investors to create and manage diversified investment portfolios in an efficient manner, as well as enabling them to switch exposures at any given moment during trading days. Within ETPs there are broadly three main categories in which we trade:

**Exchange Traded Funds (ETFs)**

This category is traded the most, compared to ETCs and ETNs. ETFs derive their value from shares or bonds held in proportion to an index. For example, a Euro Stoxx 50 ETF would track the same shares as the Euro Stoxx 50 index in approximately the same proportions. Fixed-income ETFs derive their value from a portfolio of debt instruments. For example, bonds included in the Barclays US Treasury 1-3 Year Term Index. ETFs are the most widespread among ETPs as measured by AuM.

**Exchange Traded Commodities (ETCs)**

ETCs typically derive their value from a commodity index, such as the Bloomberg Commodity Index, although in some cases they derive it from just a single commodity, such as gold or oil, or a certain currency. For example, the SPDR Gold Shares ETC tracks the value of physical gold. ETCs may hold physical assets, but exposure can also be held through derivatives of the underlying commodity, in combination with cash.

**Exchange Traded Notes (ETNs)**

ETNs are a type of unsecured, unsubordinated debt security issued by an underwriting bank. The returns of ETNs are based on the performance of the index being tracked. For example, the iPath S&P 500 VIX Short-Term Futures Index TR ETN would track the S&P 500 VIX Short-Term Futures volatility index.

## *The ETP ecosystem*

The ETP ecosystem is made up of a number of participants who together make ETP investing and trading possible. These include: investors, ETP issuers, exchanges and other trading venues and authorized participants, who can also act as liquidity providers, such as Flow Traders. The ETP ecosystem can be further divided into two markets: the primary market and the secondary market.

**Primary market**

Interaction in the primary market takes place between authorized participants and the issuers, who either issue or cancel ETPs. This is done in reaction to market demand and is called the creation and redemption process. Authorized participants can create ETPs with the issuer by transferring the underlying assets (or cash equivalent) to the issuer in return for a corresponding number of newly issued ETPs. This increases the ETP's AuM. In this way, the issuance of ETPs through authorized participants provides the issuers with access to a broad investor market without having to support a complex and costly trading infrastructure which would be non-core to their business. Redemption is the reverse of the creation process: the authorized participant transfers ETPs to their issuer in exchange for the underlying assets (or a cash equivalent). The issuer then cancels the ETPs it received. This decreases the ETP's AuM.

**Secondary market**

The secondary market is where ETP trading takes place between market participants, similar to the trading of ordinary shares, at market-determined prices. Secondary market participants include institutional and retail investors, liquidity providers and authorized participants. Secondary markets include exchanges and other automated trading venues, as well as off-exchange trading between market participants such as large institutional investors.

**The role of Flow Traders**

We have two main roles in the ETP ecosystem. The first is as a liquidity provider. In this role, we help maintain and improve the overall transparency and efficiency of the ecosystem, by quoting bid and ask prices for ETPs on trading venues, as well as off-exchange to institutional investors, that market participants can trade against. By providing liquidity we make it easier for investors to buy and sell ETPs at a price that should reflect the (relation with the) current price of the underlying asset, and contribute to lower trading costs.

Another role we play in the ETP landscape is as an Authorized Participant (AP). We have AP-agreements in place with all the major ETP issuers, these agreements link the primary and the secondary ETP market and allow us to either create or redeem the ETPs.

## Liquidity Provider

***Leading liquidity provider***

We are recognized by the ETP industry as a leader in ETP liquidity provision. For the last nine years, we have won the 'ETF Market Maker Europe' award in the Global ETF Awards. We received the equivalent distinction in APAC as 'ETF Market Maker Asia-Pacific' in 2011, 2012, 2013 and 2015. Flow Traders has also been voted Best Trading House for ETFs in the ETF Risk European Rankings in three consecutive years - 2013, 2014 and 2015. Finally, ETF Express awarded Flow Traders with the title 'Best Asia-Pacific Market Maker' in 2013 and 2016 and 'Best European ETF Market Maker' for 2013, 2014, 2015 and 2016. We consistently rank in the top three in terms of market share of ETP value traded on Europe's five largest ETP trading venues: Deutsche Börse, Borsa Italiana, Euronext, SIX and LSE. In terms of total on-exchange ETP value traded in Europe, we hold a leading position.

## Pricing

***Pricing ETPs accurately***

Being able to accurately price the ETPs that we provide liquidity in is vital to the success of our business. Get it wrong, and we lose money or a trade goes to a competitor. Our experience in establishing the pricing relationship between the ETPs and the underlying assets in a variety of market conditions means we can offer competitive bid and ask prices, while still covering our trading costs and locking in transaction profit. We achieve this using pre-set hedging strategies, which (where possible) instantly reduce our market exposure, creating a market-neutral position. And it's these hedging strategies that enable us to trade ETPs in such a way that our Net Trading Income is unaffected by any price movements of the underlying or related securities.

## Cutting edge proprietary technology platform

We are a financial technology company. As such, technology lies at the heart of the business, enabling us to provide liquidity in a variety of market environments across the globe. We trade using proprietary and scalable software with the vast majority of our applications developed in-house. These include pricing and trading software, market data processing tools, pre-trade risk controls, and other risk and compliance tools. This is the main reason that our Technology department makes up around one-third of our total staff.

One of our software platform's core features is its modular design, which allows us to rapidly test and implement ongoing enhancements. This also means we can easily and cost-effectively expand our coverage of securities, asset classes, and geographical markets as we grow the business.

In 2016 our total technology expenses grew 27% to support the improvements in our infrastructure and the growth in number of trading venues. In total our technology expenses were 48% of the total fixed expenses in 2016. Including salaries this would be 66%, showing our focus on technology as part of Flow Traders' business model

## Real-time risk management

We manage risk effectively across the company. Within the trading environment we reduce our risk by monitoring our trades and positions, market exposure, portfolio efficiency, and liquidity on a real-time basis. Our risk management system is fully integrated with our trading platform, analyzing pricing data and ensuring that our order activity is conducted within pre-determined trading and position limits indepdently. At the same time the system reconciles internal transaction records against those of our prime brokers and exchanges where possible. Off-exchange we use strict risk management approval and monitoring procedures for

institutional trading counterparties. Additionally, we settle almost all of our off-exchange trades through delivery-versus-payment, which means that the delivery of securities occurs simultaneously with payment by the buyer, thus limiting counterparty risk. For more information, please refer to the Our Risk Management chapter.

## Strategy

### *Our strategic ambition*

Our ambition is to be the leading global ETPs-focused liquidity provider.

### *Our market*

We operate in a highly competitive market that is changing rapidly. It is characterized by heightened regulation and an ever-increasing focus on technology. Yet the market's core function remains the same: transferring risk between market participants. This is where we add value. Our focus will continue to be on providing liquidity in the fast growing ETPs market, and we are striving to trade all ETPs.

### *Our business principles*

Our business principles are being flexible, agile and improving continuously. To be successful, we recognize that we need to perform well across all areas of the business. Achieving this involves diligently studying the markets and our responses to them, and using our resources where they have the greatest impact. The outcome of this process defines whether or not we have a competitive edge.

### *Our strategy*

We will achieve our strategic ambition by continuing to grow our business incrementally. This should result in increasing our Net Trading Income (NTI), while maintaining our desired risk profile, controlling costs, and securing and attracting the right talent. Increasing our NTI involves increasing the product of Volume and revenue capture, where Volume is the value of products we trade and revenue capture is the net margin we capture per trade after the corresponding exposure has been hedged. Our risk profile is characterized by having no opinion on market movement or direction. Realizing this ambition will involve:

#### Volume growth

- Connecting to more trading venues and platforms to capture additional volume
- Improving our technical infrastructure, to increase the volume we trade on the platforms on which we are already active
- Increasing the number of institutional counterparties to increase our off-exchange volume
- Increasing the number of products traded by providing liquidity in other asset classes

#### Maintaining our desired risk profile

- Focusing on those financial products that match our risk appetite
- Continuing to apply a four-eyes (or more) principle to all essential processes
- Having all the desired risk controls and redundancies in place
- Ensuring ongoing compliance with applicable rules and regulations

#### Increase revenue capture

- More accurate product pricing through better product and market knowledge
- Increase pricing and hedging quality by connecting to more exchanges
- Introducing more advanced technologies to increase the quality of the trades
- Reducing the variable costs per transaction

#### Controlling our fixed cost base

- Have proper cost insights
- Being cost conscious
- Benefit from global economies of scale
- Running a capital-efficient business model

## Acquisitions

We focus on incremental growth. Although we will not exclude any possibilities where it concerns M&A activity, any opportunity would have to outweigh the integration and cultural issues that could potentially arise.

## Financial overview

### *Net Trading Income*

The 2016 macro-economic topics such as Brexit referendum and US elections kept investors side-lined in the run-up to these events with a focus on more liquid products which generally trade with tighter spreads. This affected our Net Trading Income, which decreased to €250 million (2015: €304.7 million), although our ETP value traded increased to €640 billion (2015: €603 billion). Therefore, our revenue capture was impacted by the shift to highly liquid products and less periods of highly volatility. Compared to 2015 our consolidated revenue capture decreased to 3.9 bps (2015: 5.1 bps).

### *Market volatility*

In 2016 market volatility declined profoundly to levels close to record lows, with moments of heightened volatility and market activity after the results of the Brexit referendum and the US elections.

### *Operational expenses*

Our fixed operational expenses were in line with the growth of the company whereby we kept investing in our technology infrastructure. Part of this development were the write-downs of tangible assets in the first half of 2016. We were able to keep our EBITDA margin at a comfortable 47.5 percent in 2016 (2015: 51.5 percent, adjusted for the IPO costs).

### *Capital base*

During the year we continued to maintain a strong, stable capital base, comfortably exceeding our regulatory and prime broker capital requirements. We paid out €0.55 interim dividend in September 2016 and propose to pay €0.70 as a final dividend, to return a total of €1.25 in dividend to our shareholders over 2016.

### *Growth*

Flow Traders continued to grow in 2016. We increased our institutional counterparties globally to more than 550, increased the number of products traded and increased the number of venues we are connected to, to over a 100.
To facilitate this growth, we continued to grow the business during the year across all regions, resulting in an increase in the number of FTEs to 341 by year-end (2015: 268).

*‘We continued to grow the business during the year across all regions’*

## IMPLEMENTATION OF MIFID II

*Name* ***Christopher Lederer***

*Position* ***Head of Product Group Management, Amsterdam***

# *'The challenge is finding the balance between reliability and performance'*

*How has the IT environment prepared for the introduction of MiFID II?*
We began by working closely with the Compliance department to prepare for the changes.
This enabled us to develop a very thorough understanding of the regulatory requirements in general, and a detailed understanding of the IT requirements specifically. Many of these requirements focus on data availability, our ability to create reports, and so on. One of the key aspects of MiFID II is providing the regulators with unfettered access to our data, so we reduce the risk of data loss by storing all of our trades on local servers and distributing the information simultaneously between offices. And because we are trading on more than 100 venues we are producing and processing a huge amount of data. We need to balance this vast data load with speed of delivery, as we have to be able to report at a set time each day.

*What are the main challenges you are facing/have faced?*
In addition to cost, the main issues are time and resource planning. Transforming a written regulation into a physical change that requires additional reporting, data backup and storage, and hardware upgrades, requires disciplined planning and puts a strain on the departments. At the same time, we need to ensure we are hiring and training people of the right calibre, while also dealing with the day-to-day issues that arise from trading on an expanding number of markets and venues. So there is a lot going on. The biggest advantage we have is the strength of our business model and the very talented, professional team we have built up.

*What have you had to change or adapt within the IT framework, if anything?*
I would call it evolution rather than change.
We have complied with regulatory requirements since 2004, and since that time we have developed a very robust and flexible technology platform and department. For our technology platform, the main development was increasing the flexibility of data capturing and securing data storage, as the regulators demand data in a variety of formats. This of course is possible, but we need to adjust our framework to enable it.

*Do you think MiFID II will result in an increased use of technology for trading?*
Absolutely. We rely heavily on technology at every level in this business, and these regulations mean we need to focus even more on developing the right technology solutions. In the electronic markets the goal is to make use of the best technology available, and we work closely with software developers and hardware manufacturers to look at what they are developing and whether it can help us. Our focus is on developing systems that give us a competitive advantage, but which are robust and fail safe. Something might be very fast, but is it reliable? The challenge is finding the balance between reliability and performance.
One of our great strengths is we operate a Technology department, we integrate IT, Quality Assurance and Development in the process of software delivery. We cross-pollinate and focus on coming up with lateral solutions, which has enabled us to be more flexible, especially on MiFID II and other regulatory items.

# Our People

**Our success is driven by a combination of smart trading strategies, state-of-the-art proprietary technology and prudent risk management. Our people are the cornerstone of our ability to deliver on these items. This is why we aim to recruit and retain the best talent available.**

## Recruiting

### *How we recruit*

We are looking for the best talent available, regardless of their gender, age, ethnicity, faith or sexual orientation. To find people with the unique skill sets needed for a global liquidity provider we recruit across the globe. We visit campuses in India, Australia, Singapore, the US and across Europe. We advertise and search globally on multiple platforms. Our offices are all growing, and we are looking to hire as many qualified applicants as we can find. However, our selection standards remain high – our candidates need to go through a number of tests and interviews, with less than 1% of applicants for Trading positions ultimately receiving a job offer.

We recruit for all disciplines. Junior traders are typically recruited straight from university. Although our traders have a varied educational background, they share a strong numerical aptitude, which is why a numerical test is an important part of the selection procedure. Candidates for roles other than trading are qualified specialists who have relevant work experience. We make very little use of contractors or temporary employees.

## Retaining staff

### *Our Offices*

All our offices are designed to provide a pleasant and ergonomically sound place to work. Offices are flooded with light and have a great interior with ergonomically optimized furniture. In addition, to give our people the opportunity to perform at their best, we offer healthy breakfast and lunch options, have our own in-house gym facilities and bar in Amsterdam, Singapore and New York,

and organize great company trips and parties. And we do not only use our newly-designed bar for after work gatherings, but also for recruiting events and quarterly staff updates. The bar's authentic feel and design, which contrasts with the sleek, modern, white-and-red interior of our office, has triggered many positive comments from visitors. We believe these benefits are important to maintain a healthy and happy workforce and to stimulate bonding and connections beyond the direct circle of colleagues and stimulate teamwork across the whole company.

### *Onboarding*

We are a fast growing company. In 2016 we hired over 100 new joiners, a 29% increase in the number of employees. Our new colleagues join us from all parts of the world. To make sure they feel at home quickly we offer full relocation support for everyone moving to our offices from abroad. We help with finding a home, applying for a visa and getting to know the local culture. In 2016 we hosted our first spouses event aimed at helping our employees' partners settle in and find their way. And all international employees are given the opportunity to attend Dutch language classes.

Our new hires in Trading and Technology start with an intensive introduction program, bringing them up to speed with our way of working and training them in the specific skills they need to do their job well. All junior traders – including those hired in Asia and the US – begin their global training program at our offices in Amsterdam.

### *Training and rotation*

At Flow Traders, we help our employees shape their own future. For example, we like to give our employees the chance to transfer between our offices and experience life and work elsewhere. We offer all of our employees training

*'In 2016 we hired over 100 new joiners, a 29% increase in the number of employees'*

opportunities, aimed at either improving function-specific skills or for their own personal development. And most of our managers are 'home-grown', having developed into their positions after a numbers of years working with the company. They set an example and act as an inspiration for new hires, illustrating the career paths open to them.

### *Remuneration*

We reward our uniquely skilled employees with an attractive combination of fixed and variable pay. When awarding variable compensation, we look beyond one's individual results or direct area of responsibility. The variable element depends on company performance, individual performance, and one's contribution to the long term success of the company as a whole. We use this compensation structure as an important tool to stimulate team work and risk awareness and to reward performance. For example, awarding variable remuneration and payment of deferred variable remuneration depends on the future profitability of the company, which means we only award variable remuneration, or pay deferred remuneration, if there is sufficient profit and capital to do so.

In 2016, the company-wide average compensation paid per employee was approximately €277,000. Variable remuneration amounted to around 70% of total compensation in 2016. In 2016 19 employees (including management board) were awarded remuneration of €1 million or more (2015: 32).

### *Open, informal and diverse culture*

Our work environment is a reflection of the things we believe in. We believe that it is more important how you perform than what you wear. So our employees dress comfortably for work – jeans, t-shirts and sneakers are common. We believe that what someone says is more important than who says it. We believe that the contributions of our team-members are crucial to the success of the company. We believe that two people know more than one, and that people can have great ideas even in areas other than their core expertise. Therefore, we welcome and encourage everyone to share their opinions. Anyone with a good idea, be it in his own area of expertise or another, will be encouraged to put this forward. This is part of our open and collaborative culture.

Our employees include people from different backgrounds and nationalities. We have economists, engineers, computer scientists, mathematicians, lawyers and physicists among our employees. We harbor people from 36 different nationalities. This diversity ensures different viewpoints are brought into discussions, and we believe this leads to better, more innovative outcomes for the company (2015: 32).

## Shares held by employees and Management Board members

We encourage our management and senior employees to invest in Flow Traders, linking the company's long-term success to their personal financial circumstances. Our Co-CEOs and a number of current and former employees have invested in Flow Traders in the past at fair value, using their own net worth. Following our IPO, these shares remain subject to lock-up provisions and the relevant people may only transfer or sell their shares as set out below:

- up to 33⅓ percent of these shares became available for sale on 10 July 2016;
- up to 66⅔ percent of these shares will become available on 10 July 2017;
- all of these shares will be available from 10 July 2018.

The restriction included in the underwriting agreement that the company entered into in respect of the IPO that, without the prior written consent of the joint global coordinators on the company's IPO (acting on behalf of the underwriters), it would not grant any waiver from the lock-up as set out in (i) each of the Co-CEOs' lock-up agreements, or (ii) the lock-up agreements for other employee-shareholders holding a 0.5% economic interest (or more) in the company at the time of the IPO has expired.

In 2015 a group of employees bought shares in Flow Traders. These shares are subject to a 6-year lock-up period and will only be released as set out below:

- up to 25 percent of these shares will become available on 1 June 2018;
- up to 50 percent of these shares will become available on 1 June 2019;
- up to 75 percent of these shares will become available on 1 June 2020;
- all of these shares will become available on 1 June 2021.

In the event of termination of employment during the lock-up period the relevant people must offer their unreleased shares to the company for the lower of (i) the corresponding subscription price paid of €14.44 or (ii) the fair market value of the shares at the time of such termination, and in any event within five business days of Flow Traders having given notice to the relevant participant thereof. The company may at its discretion accept the offer, subject to any applicable restrictions under corporate or securities laws. See also note 25 in the Financial Statements.

In 2016 the company bought back shares which were subsequently sold In the market. The nett result of €1.6 million is added to the share premium.

| NUMBER OF SHARES LOCKED-UP OR UNRELEASED HELD BY CURRENT AND FORMER EMPLOYEES AND MEMBERS OF THE MANAGEMENT BOARD | Shares subject to lock-up | % of outstanding shares | Shares subject to release | % of outstanding shares | Total shares subject to lock-up or release | % of outstanding shares |
|---|---|---|---|---|---|---|
| Dennis Dijkstra (Co-CEO) | 701,917 | 1.5% | 50,000 | 0.1% | 751,917 | 1.6% |
| Sjoerd Rietberg (Co-CEO) | 504,950 | 1.1% | 68,750 | 0.1% | 573,700 | 1.2% |
| Others (excluding members of the Supervisory Board) | 5,972,532 | 12.8% | 1,304,125 | 2.8% | 7,276,657 | 15.6% |
| ***Total*** | **7,179,399** | **15.4%** | **1,422,875** | **3.1%** | **8,602,274** | **18,5%** |

### *Shares held by members of the Management Board*

The table below provides an overview of the shares held by the members of the Management Board, including those who are under lock-up and as reflected In the AFM register on 31 December 2016:

**SHARES HELD BY MEMBERS OF THE MANAGEMENT BOARD**

| *(31 December 2016)* | | % of outstanding total shares |
|---|---|---|
| Dennis Dijkstra | 1,112,875 | 2.39 |
| Sjoerd Rietberg | 850,000 | 1.83 |
| ***Total*** | **1,962,875** | **4.22** |

### *Shares held by members of the Supervisory Board*

The co-founders of Flow Traders, Roger Hodenius and Jan van Kuijk, are currently members of the Supervisory Board. The table below provides an overview of the shares indirectly held by them on 31 December 2016 as also reflected in the AFM register.

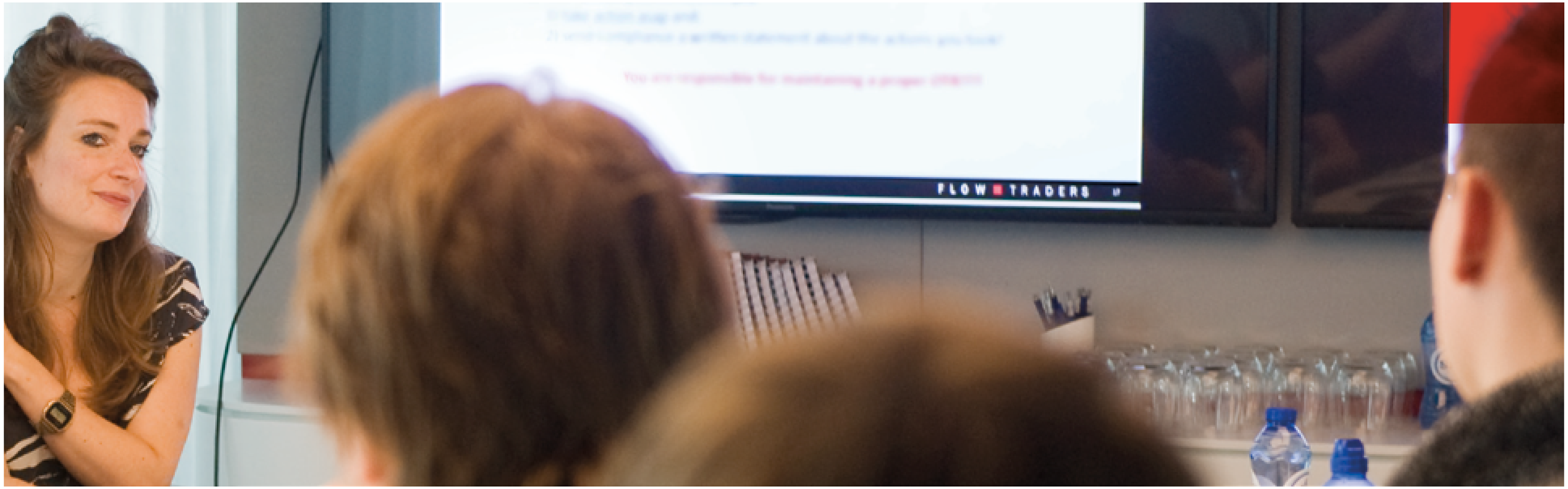
**SHARES INDIRECTLY HELD BY MEMBERS OF THE SUPERVISORY BOARD**

| *(31 December 2016)* | | % of outstanding total shares |
|---|---|---|
| R. Hodenius | | |
| (Avalon Holding B.V.) | 6,642,255 | 14.27 |
| J.T.A.G. van Kuijk | | |
| (Javak Investments B.V.) | 6,642,255 | 14.27 |
| ***Total*** | **13,284,510** | **28.55** |

Following a transaction announced on 15 February 2017, which was completed on 20 February 2017, the following shareholdings were filed with the AFM's register:

**SHARES INDIRECTLY HELD BY MEMBERS OF THE SUPERVISORY BOARD**

| *(20 February 2017)* | | % of outstanding total shares |
|---|---|---|
| R. Hodenius | | |
| (Avalon Holding B.V.) | 5,711,565 | 12.27 |
| J.T.A.G. van Kuijk | | |
| (Javak Investments B.V.) | 5,711,565 | 12.27 |
| ***Total*** | **11,423,130** | **24.55** |



## EMPLOYEES PER BUSINESS UNIT/NATIONALITIES

| | Dutch | American | Indian | German | Romanian | Russian Federation | Singapore | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Trading | 59 | 15 | 11 | 7 | – | – | 2 | 22 | 116 |
| Technology | 30 | 10 | 5 | 7 | 12 | 13 | 1 | 43 | 121 |
| Risk & Mid-Office | 15 | 6 | 1 | – | – | – | 4 | 5 | 31 |
| HR & Facilities | 16 | 4 | 2 | – | – | – | 1 | 3 | 26 |
| Legal & Compliance | 11 | 2 | – | – | – | – | 1 | – | 14 |
| Finance | 7 | 1 | – | – | 1 | – | 1 | 3 | 13 |
| Managing Directors | 9 | – | – | 1 | – | – | – | – | 10 |
| Project Management | 8 | – | – | – | – | – | – | – | 8 |
| Supervisory Board | 4 | – | – | – | – | – | – | 2 | 6 |
| Internal Audit | 1 | – | – | – | – | – | – | – | 1 |
| Total | **160** | **38** | **19** | **15** | **13** | **13** | **10** | **78** | **346** |

## NUMBER OF EMPLOYEES AS OF 31 DECEMBER 2016

| | Amsterdam | New York | Cluj | Singapore | Total |
|---|---|---|---|---|---|
| Female | 29 | 6 | 6 | 12 | 53 |
| Male | 203 | 46 | 7 | 37 | 293 |
| | **232** | **52** | **13** | **49** | **346** |

## REGULATORY COMPLIANCE

***Anti-corruption and bribery matters***

We have zero tolerance towards bribery and corruption and we actively see to it no such behavior occurs. No case of bribery or corruption was reported in 2016.

***Respect for human rights***

No cases of child and forced labor were reported in 2016.

## AT A GLANCE

### Culture

- Informal 'work hard-play hard' culture
- Casual dresscode
- Highly skilled people
- Drive, teamwork, ownership
- Aiming to be the best
- Playing to win
- Enjoying life, organizing great events

### Office

Stimulating collaboration and collegiality

- Open office spaces
- In-house bar
- Annual company trips

### Lifestyle

Enabling a healthy lifestyle

- Free healthy breakfast and lunch
- In-house gym
- Sport programs & events
- Personal trainers
- Chair massage
- Free drinks and snacks
- Quarterly health checks
- In-house barber

# Flow Traders and Society

## Sustainability statement

Our activities influence the society we live in. As a liquidity provider we are active on global financial markets and we contribute to transparency and the pricing process, enabling market participants to invest at fair prices and lower costs. Our activities contribute to sustainable employment and technological innovation in our society and we are committed to full compliance and integrity. We seek to limit our environmental footprint and contribute to our society and immediate vicinity.

We are aware of our impact on society while executing our business strategy. Four themes summarize our interaction with society:

1. We offer liquidity on financial markets;
2. We offer sustainable employment;
3. We are committed to full compliance and integrity;
4. We are aware of our impact on the environment and involved in society and our immediate vicinity.

## 1. We offer liquidity on financial markets

We contribute to transparency and effective operation of global financial markets by providing liquidity to markets globally. We facilitate that thousands of Exchange Traded Products (ETPs) and similar products can be traded across the world's markets, by continuously quoting bid and ask prices. As an innovative segment of global financial markets, ETPs have introduced efficiencies and cut investment costs substantially for a wide range of investors, from pension funds to retail investors. Increased liquidity, higher execution quality, and lower overall trading costs are just some of the benefits that liquidity providers, such as Flow Traders, offer through these innovative financial products compared to more traditional investment products.

Our role is to enable trading in widely diversified investment products accessible and transparent to anyone at any time, allowing end investors to invest with less costs and thus potentially higher returns. As a result, over the years, trading costs have dropped dramatically and access to transparent and inexpensive investment products for anyone, and not only the happy few, has never been more efficient.
This benefits institutional investors, individual investors and, ultimately, society at large.

### *Stakeholder dialogue*

We enter the public dialogue with full transparency.
Our contributions to the regulatory dialogue are typically made public and we are always willing to discuss what we do, and how that impacts the world around us. We have extensive dialogues with interest groups, including those focusing on transparency, institutional and retail shareholder interests, academia and students, local governments, regulators and anyone else who has an interest in what we do, and how we do it. We commit to being approachable and fully transparent with the goal to promote fairness, transparency and orderly functioning of the financial markets.

## 2. We offer sustainable employment

By creating and retaining high quality jobs we help develop a stable and trusting working environment that benefits our people, our business, and society. Since we started in 2004, our goal has been to foster a culture that encourages innovation, entrepreneurialism and risk-awareness, while focusing on drive, teamwork and ownership. By developing talent in-house and maintaining a committed and substantial employee shareholder base, we strengthen the internal bonds and help create a loyal, forward-looking team. We invest in employees for the long run.
We encourage our people to move between offices internationally, to share ideas and best practices across the company, while experiencing life in different cultures.
Although our business does not directly affect human rights issues, we are strong proponents of ensuring fair and equal treatment for all and expect the same from our employees, relationships and stakeholders.

### *Diversity*

We also believe that a diverse workforce can supply a greater variety of ideas and provide better solutions to the challenges we face. We have a long-standing policy of recruiting and retaining the best talent available, regardless of their gender, ethnicity, faith or sexual preference. We are committed to providing equal employment opportunities to all qualified job applicants. As a result, we employ people from 36 nationalities across our offices. The composition of our workforce tracks the outflow of the education system in the various roles on offer at Flow Traders. We strongly encourage women to apply for any function within the firm, particularly when they have a background in fields that traditionally have a higher proportion of male employees.

### *Remuneration*

We believe in sharing our profits with all relevant stakeholders, including our employees. Given good performance, all employees, in any role, in any office, are entitled to receiving a bonus relative to their contribution to the firm as a whole. We are transparent about both how we pay our people and how much we pay them, including management. We have a straight-forward remuneration policy that permits variable pay only when actual profit is made. And because variable remuneration is deferred to a large extent, it remains at risk of forfeiture in the case that we sustain a loss. We believe this is the strongest incentive for sustainable, risk-aware behaviour for all our staff.
In addition, we promote employee shareholding, particularly at the more senior levels. This aligns the interests of the company with those of our employees by creating 'skin in the game'. For more details please refer to the sections Our People and Remuneration.

### *Education*

We want our employees to keep developing themselves in order to improve our business as a whole on a day-by-day basis. Therefore we provide excellent training to our employees. For example, in the Trading and Technology departments, new joiners follow rigorous initial training. Throughout the year all of our employees receive training at our newly introduced Flow Traders Academy, covering a wide variety of subjects including on culture, technology, regulatory developments and trading for non-traders.

### *Employee dialogue*

We take good care of our people and stakeholders.
We ensure a high quality working environment, fair treatment and equal remuneration principles for all our staff, including contractors, regardless of gender, tenure or personal factors. All employees and contractors have unrestricted, direct access to senior management and are regularly informed and consulted about key developments. People are encouraged to speak their minds to help make Flow Traders better. Information travels freely and is not restricted unless we need to protect overriding interests, such as those concerning regulations, commercial sensitivities or to protect our intellectual property.
In addition, we hold regular employee surveys, including for the survey by 'Great Place to Work', in order to hear our employees' views on how the company is doing and their experiences in their day-to-day workplace.

## 3. We are committed to full compliance and integrity

Flow Traders is a strong proponent of effective, efficient and equal regulation and contributes to the regulatory dialogue in our key jurisdictions as we want markets to be fair, transparent and functioning in an orderly fashion.
We commit to complying with all relevant laws and regulations that apply to us, wherever we operate, including in respect of anti-corruption and anti-bribery laws. Integrity and transparency is central to the way we run our business, from our Management Board and Supervisory Board to all our staff, regardless of their role. The company encourages an open culture within its organization and expects its employees to comply with applicable laws, regulations and internal policies. Each employee is responsible for

*'We believe in sharing our profits with all relevant stakeholders, including our employees'*

conducting business ethically and honestly. We have issued a Code of Conduct which forms part of our employment documentation. This Code of Conduct can be found on our website.

### *Anti-bribery, anti-corruption and anti-money laundering*

We have anti-bribery, anti-corruption and anti-money laundering (AML) policies in place that apply to all our staff. We expect our counterparties, business partners, intermediaries, contractors and subcontractors to adhere to the same standards. We believe that the risk of bribery or corruption is very limited as we do not hold or manage client money or funds. We trade financial instruments for our own account and own risk only. We do not do maintain production facilities or source raw materials. Nevertheless, staff receive training in respect of anti-bribery, anti-corruption and AML practices.

Key to our anti-bribery and anti-corruption policy is that officials or counterparties may never be placed in an uncomfortable position. No gifts or favours may lead (or have the appearance to lead) to obligations or embarrass any recipient, and no gifts or favours of any substantial value may be given to authorities. Facilitation payments are not permitted. We provide clear and recurring guidance in that respect. As part of our constant monitoring, all expenses and gifts relating to external parties are checked by senior managers of the firm and employees have to state what the purpose of an expense was and who was the recipient.

### Whistle-blowers

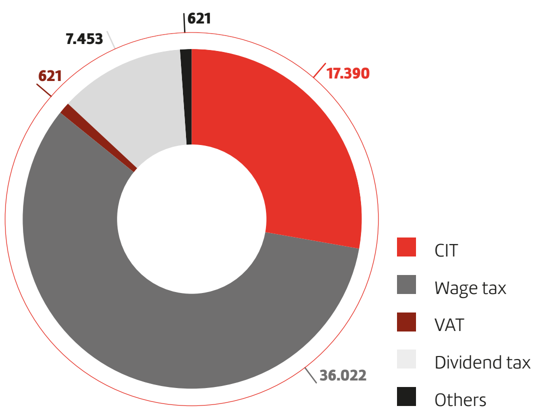
On top of our very strong culture of openness, transparency and participation, we also have an elaborate Whistle-blower Policy in place for all staff and relevant contractors, approved by the Management Board and Supervisory Board. Employees are free to raise issues and have the responsibility to report misconduct and incidents, or any reasonable suspicions.

Circumstances may arise that cause an employee to feel unsecure or unsafe to the extent that they may not want to use the usual reporting lines. The company provides employees with a safe way of reporting misconduct within its organization and offers adequate protection.
The Whistle-blower Policy has wide applications, including in respect of topics such as fraud, market abuse, corruption, anti-money laundering, theft, bribery and any other structural misconduct that threatens the integrity and proper business conduct of Flow Traders. The Whistle-blower Policy provides whistle-blowers with anonymity, confidentiality, and the company will not impose sanctions on disclosure (or affect an employee's position) unless the employee is involved in the issue that is being reported.

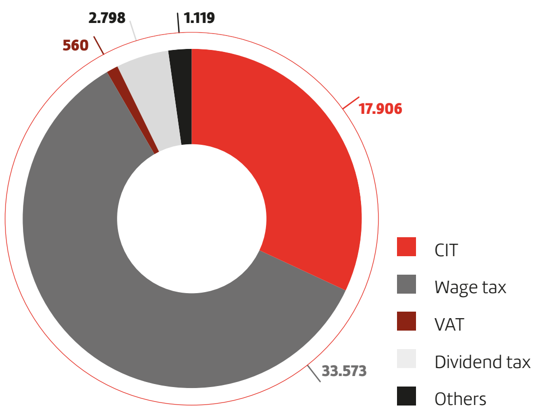
### Fair taxation

We are committed to being good corporate citizens of the communities we operate in. We pay taxes where they are due and subscribe to fair taxation, both in terms of corporate taxes and wage taxation. In 2016 we paid total taxes of €62.1 million which is 25% of our Net Trading Income.

*Total taxes paid 2016 (€ 62.1 million)*




*Total taxes paid 2015 (€ 55.9 million)*




*'Another way in which we contribute to society is through sustainable employment'*

As set out in the Our Governance chapter, Flow Traders operates a fair, transparent and straightforward tax policy. We believe this is an important part of being a sustainable business and in delivering long-term value to all of the company's stakeholders, including the tax authorities in countries whose infrastructure and facilities we benefit from. We do not use aggressive tax structuring or tax havens. We entered into a covenant with the Dutch Tax Authority for horizontal supervision (*horizontal toezicht*). This allows the Dutch Tax Authority and ourselves to pro-actively manage our relationship and discuss any tax items timely, transparently and professionally.

## 4. We are involved in society and our immediate vicinity

***Environmental footprint***

While our activities do not involve production, use, processing or transport of physical goods, sustainable business is important to us. Many of our employees live reasonably close to our offices, limiting travel. We seek to limit our energy use and $CO_2$ emission to take care of our environment. For example, when refurbishing our offices we sought to use more environmental friendly solutions for lighting and water consumption. We regularly review opportunities to compensate or limit our footprint, for instance by applying greener alternatives and perform annual energy audits in order to assess and reduce our impact on our environment.

***Societal commitment and charity***

It is important to us to contribute to initiatives that contribute to society. We support a number of charities, not only financially but also by offering access to knowledge and experience that we have available. Our people feel empowered to support charitable initiatives, which has always been part of our working culture. We engage in community giving throughout the year, and across our offices. We do this by supporting our people in fund raising activities by giving time or access to our network, by providing guidance to help them having as great an impact as possible, and by contributing financially. For example, at the end of 2016 we asked each employee to donate €500 to a charity of their choice. As a result, more than 150 charitable organizations received donations.

Individual employees have also initiated support of an increasing number of charities with support of the company and their colleagues. For example, one of our employees collects toys for parents who are unable to provide presents to their children during the festive season and a large number of employees donated money or toys to support this initiative. Additionally, in 2016 we sponsored the ‘NewTechKids’ project, which is designed to provide computer science classes to children ranging from ages 7 to 12. Our employees also take part in sports events to raise awareness and donations for a range of different charities. At the beginning of 2017 a group of eight employees climbed Kilimanjaro to raise money for the charity War Child. In 2016, we sponsored Emma Children’s Hospital by participating in their Racing for Emma event.

## Dilemmas

In our daily activities we sometimes encounter dilemmas where we weigh our societal impact against business benefits. We find them mostly in the intersection of regulations and entrepeneurship, being a listed company. Apart from having internal rules and regulations such as the Code of Conduct and the Whistle-blower Policy, we try to assess and resolve these dilemmas by applying common sense and remaining aware of our role within society.

For example: while we seek profit by trading in a highly competitive environment, we feel that we must leverage our knowledge and our position as a market participant to safeguard fair orderly and transparent markets for others. More specifically, we see purpose in protecting retail investor interests in these markets. Therefore, we spend considerable resources and efforts to address such outside interests in our regulatory dialogue as it improves market quality for everyone, including more vulnerable participants.

*‘In 2016 we sponsored the ‘NewTechKids’ project, which is designed to provide computer science classes to children.’*

*Name* ***Piebe Teeboom***

*Position* ***Secretary General, FIA European Principal Traders Association***

*Can you provide a short description of the relationship between FIA EPTA & Flow Traders?*
The European Principal Traders Association (FIA EPTA) was established in 2011. We represent 29 firms in Europe who have no external customers and trade with their own capital and for their own risk. Our purpose is to communicate, with one voice, our members' opinions and ideas to legislators and regulators so that they can better understand trading practices. Flow Traders is one of the founders of FIA EPTA and remains particularly supportive of the work we do. I believe that Flow Traders understands the importance of engaging with policy makers and explaining the principal trading business model to our stakeholders. They have also been strong advocates of our core principles: to foster stable, reliable and well-functioning markets, transparency, the requirement for a strong but appropriate regulatory framework, and equality of access.

*Can you highlight some of the main developments that impacted your members in 2016?*
From the regulatory side the main topic has been MiFID II, of course. There were a number of important steps taken in 2016, including finalisation of most of the Level 2 regulatory standards. This means there is now greater clarity on what is expected from firms, particularly for principal trading firms such as Flow Traders. This means firms can now complete their MiFID II implementation work with greater assurance. Another key development was the decision by the European Union to delay the introduction of MiFID II by one year, meaning the date for application is now set for 3 January 2018. This was driven by the need for regulators and firms to develop systems capable of dealing with the huge amount of data they will receive from market participants when MiFID II is enacted. Brexit was also a key issue, as the vote by the United Kingdom to leave the European Union could impact the regulatory landscape significantly. We continue to follow developments closely.

*What were the key issues trading firms brought to your attention during the year?*
One of the main issues currently concerning our members is the European capital requirements regime for investment firms. The existing regime essentially treats firms in our sector in the same way as they treat banks, which of course is not appropriate. This will have to change, which regulators are also recognising, fortunately. We are currently in close dialogue with the regulators to ensure that the new prudential regime being developed for investment firms takes into account the specific characteristics of principal trading firms. Their role as liquidity providers contributes greatly to the healthy functioning of markets, as traditional financial institutions are moving away from providing liquidity.

*In what ways do you see new financial regulation, such as MiFID II, impacting market makers and the market as a whole?*
We believe the impact of MiFID II on principal trading firms and the financial ecosystem is essential. Fortunately, the regulators have taken into account much of the feedback from the principal trading community, and we have been very active in providing input on our members' business models so that the regulators could better understand what firms do and how they mitigate risk. The main positive from MiFID II is that it ensures a safe trading environment underpinned by extensive risk controls along the entire trading chain. Specifically, for the principal trading community MiFID II will also mean that all of our members will be regulated firms which are in full compliance with these rules. In that sense, MiFID II constitutes a renewed license to operate for our industry.

*Aside from regulation, are there other developments relevant to the sector?*
One key development is the range of studies that were published in the past year refuting some of the undue criticism of our members' trading practices. There is now a large body of evidence from regulatory bodies around the world, based on data-driven studies, which show that our members, as liquidity providers, offer clear benefits to the market. This provides an excellent basis for our industry to move on from the misrepresentations of the past and to start being recognised more widely for our positive contribution in making markets work more efficiently and effectively for end-investors.

*‘The liquidity provider is therefore crucial to the commercial success of the product.’*

***Jane Sloan***
*Head of EMEA iShares Capital Markets*

# Our Risk Management

**Flow Traders is designed to be risk-averse and risk-aware. We are intensely focused on risk management. We aim to keep our net exposure and market risk as small as possible by hedging exposure fully, and where possible, perfectly and instantaneously at all times. We monitor our activities on a real-time, fully automated basis using our robust risk management framework. As a result of this, in 2016 we had no days in which daily Net Trading Income was negative (loss days).**

## Organization

Our trading professionals, who closely monitor our trading system, together with our Global Heads of Trading, are our first line of defense. Our Risk and Mid-Office, Compliance, Finance and Internal Audit departments serve as other internal multiple lines of defense. We maintain a strict segregation of duties, where Risk and Mid-Office, Compliance and Finance are separate departments, each reporting individually to our Management Board. In addition, trading venues and our prime brokers provide various risk controls, monitoring, and data we can use to reconcile our own records, while our regulators and other professional parties query us from time to time in respect of, among other things, our processes and risk controls.

We have a four-eyes approach, which means that every trading desk is staffed by at least two traders, at least one of whom is a senior trader, to monitor each other's trading. Our Heads of Trading supervise our trading activities closely during the trading day.

We also use our remuneration model to promote risk awareness and responsible trading. Individual variable remuneration is dependent on the contribution to the success of Flow Traders as a whole, thereby discouraging a culture of 'star' behavior. It fosters collaboration and teamwork, instead of focusing on individual trading profitability (in the case of traders). Deferred variable remuneration acts as a first loss tranche to compensate for any operating loss in the subsequent years, before such loss would impact shareholder equity, serving as a powerful incentive for risk-awareness and prudent trading behavior. In addition, a number of employees were invited to invest in Flow Traders in the past at fair value, using their own net worth, which, together with the lock-up attached to those shares, should align their interests with the long-term future of the company.

Our trading strategies are designed to be non-directional, non-speculative and market-neutral. This means we aim to limit net exposure on the products we trade: we have no opinion on what the market does, and market movements do not affect the profit or loss on our positions. In addition, we maintain our policy of hedging our trades fully and, where possible, perfectly and instantaneously at all times. We hedge our positions in order to minimize net exposure and market risk. The vast majority of our trades are relatively small in size, further limiting trading risks.

## Risk committee and reporting

The Management Board determines our risk appetite and provides guidelines for overall risk management. The Risk and Mid-Office department proposes policies to govern specific risk areas which need to be approved by the Management Board. Risk management is carried out under policies approved by the Management Board.

Members of our capital management team and our Trading and Risk and Mid-Office departments work closely together to ensure that the risks we take are in line with the company's strategy as determined by the Management

Board (e.g. in terms of the products traded, positions, markets and their characteristics, the factors of which are continuously assessed given market circumstances and our trading portfolio at that time). The Risk and Mid-Office department independently assesses, monitors, quantifies and documents possible risks, which are inherent to trading in an automated environment. Our risk management framework is robust and transparent, capturing all risks which are relevant to our business. We continuously reassess the limits set and methodologies used in our risk management framework.

Risk information is reported to the Global Head of Risk and Mid-Office, Heads of Trading and Management Board on a daily basis. A process of escalation is in place in the event a material issue arises and any relevant steps and decisions are well-documented. The Risk and Mid-Office department also defines and assesses possible scenarios, and plans accompanying mitigating actions. In every office there are dedicated risk departments present that have (at least) weekly calls with all risk team members. Our risk team members regularly rotate roles to disseminate knowledge, serve as a fresh pair of eyes, and be able to manage risk in all offices from every location in a consistent manner.

We have a standing risk committee that continuously assesses the risks we face in our business, comprised of our Global Head of Risk and Mid-Office and Global Head of Trading. Aside from ongoing ad-hoc communication, there is a recurring meeting in which they discuss all relevant position limits, strategies, procedures, capital requirements and other requirements of prime brokers and market developments. Any major changes to our risk systems, strategies and limit setting must subsequently be approved by the Management Board. In addition, the Trading and Risk Committee of the Supervisory Board include supervision and monitoring, as well as advising the Management Board on the operation of our internal risk management and control systems. The Trading and Risk Committee is also responsible for providing advice to the Management Board on the company's development, performance and sustainability of its trading strategies. It maintains regular contact with the company's Trading and Risk and Mid-Office departments and reports periodically to the Supervisory Board. For more information on the responsibilities of our Trading and Risk Committee, please see the chapter Our Governance.

*'Our risk management framework is robust and transparent.'*

Following a review of the company's risk assessment processes, the monitoring of the company's internal risk management and control systems has been identified as a priority and as a joint responsibility of the Supervisory Board and all committees. The members of the Supervisory Board have agreed that the Supervisory Board and each committee monitors risks identified as relevant to their specific expertise. This means that the relevant items set out in best practice provision II.1.4 of the Dutch Corporate Governance Code have been discussed by the Supervisory Board and all committees. For more information, please refer to the Supervisory Board Report.

Pursuant to our risk management policies, our automated management information systems generate reports in real-time on a daily basis. These reports include risk profiles, profit and loss analyzes and trading performance reports. Some reports are processed immediately and others require intermediate checks by our Risk and Mid-Office department. All of these reports are shared with our global Risk and Mid-Office team and management to comply with our four-eyes principle. Our assets and liabilities are marked-to-market daily by reference to official exchange prices, and they are re-valued continuously throughout the trading day for risk management and asset/liability management purposes.

## Selected risks and how we address them

### *Managing market risk*

Market risk is the risk of loss resulting from unfavorable market movements, such as prices, when positions in financial instruments are held. The value of a financial instrument may fluctuate because of changes in factors such as equity prices, currency rates, future dividend expectations, interest rates and volatilities. Our hedging strategies, in combination with the use of straightforward products and continuous monitoring, aim to minimize this risk. The Risk and Mid-Office department monitors market risk exposure on a continuous basis (including intraday). Based on the limits set per product or the aggregated risk, limit breaches, if any, will trigger action from the Risk team in order to reduce the risk. In addition, the trading positions

*Name* ***Jane Sloan***

*Position* ***Head of EMEA iShares Capital Markets***

*Can you give us a short company description?*
iShares is the brand name of Blackrock's range of Exchange Traded Products (ETPs). iShares is the market leader in ETPs and we provide exposure across a wide range of asset classes and markets. The firm offers over 500 ETPs globally[1], from broad based equity and bond funds through to more specialist areas such as alternative assets and emerging markets.

*Can you describe your role within iShares and your connection to Flow Traders?*
Within iShares I head up the Capital Markets function in EMEA. The team focusses on managing relationships with liquidity providers and distributors of our funds. We provide market insights to our investors and we aim to improve the ETP ecosystem more broadly by working with stock exchanges, trading platforms and regulators to better the liquidity of our product. Flow Traders are a major provider of liquidity in our fund range. They make markets on exchanges in our ETP range and they are also what we call an Authorised Participant, which means they are able to create and redeem shares in our products in order to balance the supply and demand.

*One of the big drivers for change in the industry will be MiFID II. How will it impact the ETP landscape?*
We think MiFID II will deliver a number of enhancements to the ETP ecosystem. ETPs were not in scope of MiFID I, meaning trades were not required to be printed to the tape, and even over the counter (OTC) trades were not required to be reported. MiFID II reverses this situation. This will lead to greater transparency of ETP liquidity, which in our view will drive greater adoption of the product. And through greater transparency and an emphasis on best execution, MiFID II is expected to drive more liquidity on exchange. As a provider of ETPs, we believe that the majority of ETP liquidity should be delivered through a transparent venue such as a stock exchange, whilst acknowledging the benefits of trading in OTC markets for larger trade sizes. We believe that Flow Traders are well positioned through their advanced technology platform to provide this increased liquidity demand both on and off exchanges.

*What other trends and developments (apart from MiFID II) do you see influencing the sector in the coming years?*
For portfolio managers seeking to replicate the performance of major equity indexes, futures have historically been the instrument of choice. This preference was primarily the result of higher liquidity and the lower holding cost of futures. However, in recent years the equity derivative markets have witnessed a structural dislocation, wherein the financing costs for futures have spiked to multi-year highs. ETPs, on the other hand, have become far more efficient and cheaper to access. Increased Assets under Management have led to better liquidity and lower trading costs due to the support of liquidity providers such as Flow Traders. In contrast to the headwinds faced by futures, due in part to regulatory changes to capital rules, ETPs have progressively become more efficient and cheaper to access, thus becoming a more cost-efficient alternative for investors looking for beta-replicating exposures.

*How do you expect the role of liquidity providers such as Flow Traders to develop over the coming years?*
We are seeing the number and type of investors in ETPs increasing, which include entities as diverse as retail investors through to sophisticated bond investors who have never traded an equity-like instrument. These investor types are going to access liquidity in different ways and the number of new trading venues is likely to increase.
With that, new trading technology will emerge.
In order to provide effective pricing to investors, liquidity providers will have to continuously innovate and build on their platforms. The role of specialist and technologically able firms will become critical in delivering liquidity to end investors. Regulatory pressure on bank balance sheets means that different market participants will likely step into the space vacated by banking entities.

*Could you elaborate on how liquidity providers such as Flow Traders contribute to the success of the ETP industry?*
A healthy ETP ecosystem relies on liquidity providers that can accurately price and trade the securities held within an ETP. In addition, they will create or redeem ETP shares based on the demand for the product and also provide an external distribution arm that sells products to the investor. The liquidity provider is therefore crucial to the commercial success of the product and they maintain a stable market that aids price discovery and valuation of the ETP.

[1] *Source: Blackrock as at 30th November 2016*

are also monitored daily, and the applicable haircuts and margins are computed by our prime brokers.

### *Managing a drop in trading volumes*

Our Net Trading Income and profitability are primarily a function of the level of trading activity, or trading volumes, in the financial instruments in which we trade, and the bid-ask spreads (which largely determine the profit on the trade, or margins, we capture) resulting from the difference between the prices which buyers are willing to pay for the financial instruments we sell and the prices which sellers are willing to accept for the financial instruments we buy. Trading volumes in securities, derivatives and other financial instruments on exchanges and in other trading venues worldwide are directly affected by factors beyond our control, including economic and political conditions, broad trends in business and finance, regulatory requirements, actions by central banks, and changes in the markets in which such transactions occur.
We have developed strategies to cope with periods of little market movement. From our experience we know that in these periods some trading desks tend to earn less where others show an increase in earnings. Therefore, these strategies may serve as a (partial) hedge in such circumstances. To control the risk of low market activity, we actively manage our costs and aim to keep our fixed costs low.

### *Managing counterparty risk*

With regard to dealing with third parties, such as issuers, trading venues, prime brokers or approved counterparties for off-exchange trading, we have strict on-boarding procedures, risk management approval and ongoing monitoring in place. Before entering into a new business relationship with a counterparty, we review their financial standing, reputation and recent developments. Transactions with such third parties are validated and reconciled by separate departments.

To address the credit risk we face, we clear almost all of our on-exchange trades through our prime brokers and central counterparties (CCPs). Trades that are not offered for central clearing (e.g. in off-exchange trading) are typically settled by way of delivery-versus-payment, which means that the delivery of securities occurs simultaneously with payment by the buyer. This limits counterparty risk. In order to further mitigate counterparty risk, we make sure that the settlement cycle of trades is kept short, aiming to ensure that the counterparty risk is only borne during the limited time of the settlement cycle. If a settlement cycle of more than three days is required, the trade can only be executed with prior approval from the Risk and Mid-Office department.

### *Managing liquidity risk*

Our liquidity risk, the risk that there is not sufficient trading capital or regulatory capital, is managed by intra-day monitoring of credit lines from our prime brokers, cash, portfolio efficiency and liquidity. Furthermore, in our trading we focus on trading liquid exchange-listed instruments which helps us unwind positions more easily than in the case of illiquid or unlisted instruments. In addition, Flow Traders is an authorized participant for over 25 ETP issuers reflecting

more than 80% of the worldwide issuer ETP Assets under Management. This position allows us to create and redeem ETPs with their issuers. Our settlement risk is mitigated by a multi-layered monitoring process of settlements.

### *Managing operational and IT risk*

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people, systems or external events. Operational risk management is an integral part of Flow Traders' management information and control systems. As our operational risks are concentrated in technology events at exchanges and clearing houses, our investment in technology is important to mitigate those associated risks.

We operate an integrated, in-house developed, high-performance and customized technology platform with frequent and controlled deployments of new hardware and software. Our infrastructure has a modular design which allows us to rapidly test and implement improvements in both hardware and software on an ongoing basis. Controlled releases of hardware and software enhancements provide for minimal disruption to our business.

The environment in which our trading software (or updates of our trading software) is being developed is strictly separated from the environment in which such trading software operates in production. Access to the source code is strictly controlled and limited. Prior to releasing our trading software, or an update into the production environment, relevant elements of our trading software are subjected to a review of its code, validation in an environment that is separate from our production environment, validating in limited production (processing a strictly limited number of orders) on one trading desk in respect of trading a single financial instrument, followed by more extensive testing across multiple desks and/or trading multiple financial instruments. Each step, and progression through the steps, is documented.

Flow Traders has a monitoring system in place to control undisrupted trading activities in real time. Multilayer monitoring is employed to avoid errors, but, when these occur the relevant teams are notified via multiple notification channels. We rely on multiple third party service providers for business and market data.

Our systems are designed such that they can be monitored in real-time, as well as being maintained and supported by qualified professionals from any office. Our risk management system is fully integrated with our trading platform, analyzing real-time pricing data, and is designed to ensure that our order activity is conducted within strict pre-determined trading and position limits. For example, our pre-trade risk controls are designed to prevent the trading engines from sending orders which deviate from our pre-defined risk parameters, such as price and volume limits set by the Risk and Mid-Office department, which keeps our ordering, trading and positions well within tolerance levels. Our monitoring tools reconcile trades, prices and positions against those of the exchanges and prime brokers. Our IT systems are regularly subjected to penetration tests by external experts. We have a comprehensive IT security system that is designed to protect us from attacks both from inside and outside the platform.

Where we have a technical interface with institutions like our prime brokers and exchanges, the integrity of the connection between the systems and the data that is being exchanged is subject to prior conformance testing and continuous monitoring. Unexpected deviations are flagged and investigated. We also have a disaster recovery plan in place, which, for instance, provides that our Amsterdam office acts as a backup site for other offices.

### *Managing our regulatory risk*

While we have no clients and do not provide investment services or ancillary services to third parties, our markets and nearly all aspects of our business are heavily regulated. Where applicable, entities forming part of our Group have obtained the regulatory licenses and approvals needed to operate their regulated businesses.

Flow Traders' trading operations are established in four international jurisdictions. As a Group we currently trade on more than 100 venues worldwide. In addition, we operate on various other venues through brokers. As we have to comply with our home regulations and the local regulations and trading rules of all venues on which we trade, our regulatory landscape is vast. Legislators and regulators worldwide strengthen their supervision within our environment, demanding a professional and well-structured compliance organization.

Our Compliance department assists management and operations at Group and local level by identifying, advising on, reviewing and reporting on regulations. It also seeks to maintain a compliant business environment through training and monitoring in order to ensure and enhance the group's conformance with its regulatory obligations.
The Compliance and Risk and Mid-Office departments have promulgated and implemented pre-trade risk controls, internal rules and regulations that were developed following regulatory requirements, guidelines from market authorities, industry best practices and our own best practices.

Laws and regulations, including tax laws, are subject to change or can be interpreted differently in practice over time. While we believe we are well-positioned to address and implement new or changing regulations in general, and while we spend considerable resources to anticipate and implement new or changing regulations, we typically cannot (fully) assess what the impact of such regulations will eventually be in practice. New regulations or revised interpretations of regulations may or may not be beneficial to our business.

Actual or alleged noncompliance with applicable laws or regulatory requirements could adversely affect our reputation, profitability and prospects. This may also be the case for differences in interpretation or lack of timely or complete implementation of regulatory requirements. Sanctions could include fines, penalties, disgorgements and censures, suspension or expulsion from trading venues or the revocation or limitation of licenses. We aim to minimize such risks by focusing considerable management attention, employing highly-qualified compliance and risk professionals, deploying training, monitoring and reporting systems, and continuously evaluating and implementing current and upcoming regulation on our operations. Notwithstanding such efforts, given the highly regulated nature of our business, we are regularly subject of routine (and sometimes more targeted) inquiries and audits from regulators and trading venues. It is difficult to predict or manage the outcome of such inquiries, although we aim to be as transparent and cooperative as possible given the circumstances.

We continuously invest in good professional relationships with trading venues, regulators and other relevant parties. Flow Traders is a founding member of the FIA European Principal Traders Association (FIA EPTA), a member of the FIA Principal Traders Group (FIA PTG) in the US and a member of FIA Asia. These are industry groups that consist of leading principal trading firms. We are also a member of the Dutch Association of Proprietary Traders (APT), operating as an industry body of Netherlands-based liquidity providers. As part of these important groups, we continue to promote, foremost, the principle that all markets and market participants should be adequately and transparently regulated. Within these groups we contribute to discussions regarding current and new regulations, including CRD IV/CRR, MiFID II, Reg AT and market regulations. We will continue to contribute to these discussions and will persist in maximizing transparency in respect of our industry, its benefits for all market participants and fair, orderly and transparent financial markets.

## In control statement

The Management Board is responsible for designing and maintaining an adequate system for internal control over financial reporting. In order to facilitate this, the Risk and Mid-Office department assessed the controls in this process and reported its findings to the Management Board. These findings have been evaluated by the Management Board and by the Supervisory Board. For a more elaborate explanation of our efforts in this regard, we refer to the chapter above on Our Risk Management.

In accordance with best practice provision II.1.5 of the Dutch Corporate Governance Code, and with due observance of the limitations stated below, we confirm that to the best of our knowledge the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly in 2016. However, these systems cannot provide absolute certainty that no errors have occurred or that our targets will be achieved, or that a misstatement of Flow Traders' financial statements can be prevented.

## Statement by the Management Board

As required by section 5:25c of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) we state that according to the best of our knowledge:

- the financial statements present a true and fair view of the assets, the liabilities, the financial position and the result of Flow Traders N.V. and the companies included in the consolidation; and
- the annual report provides a true and fair view of the position as at 31 December 2016 and the state of affairs during the financial year of Flow Traders N.V. and its affiliated companies, whose data have been included in its financial statements, and that the annual report describes the essential risks faced by Flow Traders N.V.

Amsterdam, 16 March 2017
**Management Board**
Dennis Dijkstra, Co-CEO
Sjoerd Rietberg, Co-CEO
Marcel Jongmans, CFO

*'As a market maker, transparency is one of the things we focus on most'*

***Berend Berendsen***
*Pre-Trade Compliance Officer*

# Our Supervisory Board


*Supervisory Board*

**1**

**Han Sikkens (1978, Dutch)**

Han was appointed member of the Supervisory Board on 9 July 2015. He serves on the Audit Committee and the Technology Committee. His current term expires in 2018. Han is a managing director with Summit Partners L.P., a global growth equity firm, where he has been since 2004. Prior to Summit Partners L.P., he held positions at Scotia Capital and IBM Corporation. Han led Summit Partners' investments in Avast Software B.V., a consumer security software company, Multifonds, a financial software company, SafeBoot Holdings B.V, a provider of enterprise security software, 360 Treasury Systems AG, a global electronic trading venue, and Welltec International ApS, a provider of robotic intervention solutions to the oil and gas industry. Han is currently a director of the following Summit Partners investments: Acturis Limited, Darktrace Limited, Masternaut Group Holdings Limited, Siteimprove A/S and Relex Oy.

**2**

**Eric Drok, Chairman (1960, Dutch)**

Eric was appointed Chairman of the Supervisory Board on 9 July 2015. He serves on the Remuneration and Appointment Committee and the Audit Committee. His current term expires in 2019. Eric has 30 years domestic and international banking experience, including at ABN AMRO's predecessors, ING Bank and its predecessors and Rabobank. He served as CEO of ING Direct and ING Bank Australia between 2006 and 2009, before becoming a board member of ING Bank Slaski (Poland) until 2011. He then moved to Rabobank, serving three years as Chief International Direct & Retail Banking. His other functions include sitting on the Supervisory Board of Euro Pool Systems International B.V., Cool Cat Fashion B.V., and The Greenery B.V., and he is a non-executive board member of Zanaco Bank in Zambia. Eric is also Operating Partner at HG-Capital in London.

**3**

**Olivier Bisserier (1967, French)**

Olivier was appointed member of the Supervisory Board on 9 July 2015. He is Chairman of the Audit Committee, and serves on the Technology Committee and Trading and Risk Committee. His current term expires in 2019. Olivier Bisserier is currently the CFO of Booking.com, and has over 25 years of experience in international financial roles. He was a senior manager for PwC until 2000, then had finance director roles and served as European CFO of TNS, an LSE-listed market research group.

**4**

**Rudolf Ferscha (1961, Austrian)**

Rudolf was appointed member of the Supervisory Board on 9 July 2015. He is Chairman of the Remuneration and Appointment Committee, and is a member of the Trading and Risk Committee. His current term expires in 2018. Originally a corporate finance and capital markets lawyer, he has over 25 years board-level experience at international financial institutions, including executive roles on the management boards of Goldman Sachs Bank in Frankfurt and of Deutsche Börse AG. For more than a decade he held direct oversight responsibility for FSA and BaFin regulated derivatives and securities trading businesses. Between 2000 and 2005, Rudolf served as CEO of Eurex, and from 2003 to 2005 Rudolf was Chairman of the Management Board of the Frankfurt Stock Exchange. He is currently independent Board Director of Moody's Investors Service Limited, Moody's Investors Service EMEA Limited, Moody's France SAS and Moody's Deutschland. He is also an independent Board Director at DEAG Classics AG, and a partner at Gledhow Capital Partners.

**5**

**Jan van Kuijk, Vice-Chairman (1966, Dutch)**

Jan was appointed Vice-Chairman of the Supervisory Board on 9 July 2015. He is Chairman of the Technology Committee, and is a member of the Audit Committee, Trading and Risk Committee, and Remuneration and Appointment Committee. His current term expires in 2018. Jan is one of the co-founders of Flow Traders and served as its Co-CEO from its inception in 2004 until January 2014. Until 1996, Jan served as a partner at Optiver, a proprietary trading firm, and was involved in setting up its first electronic trading activities at Deutsche Börse in 1993. In 1997 he co-founded Newtrade Financial Group, an options market-making firm which discontinued after he co-founded Flow Traders in 2004.

**6**

**Roger Hodenius (1972, Dutch)**

Roger was appointed member of the Supervisory Board on 9 July 2015. He is Chairman of the Trading and Risk Committee, and is a member of the Technology Committee and Remuneration and Appointment Committee. His current term expires in 2019. Roger is one of the co-founders of Flow Traders and served as its Co-CEO from its inception in 2004 until January 2014. Roger was responsible for developing Flow Traders' vision and culture, the trading strategies and the trading floor. Prior to founding Flow Traders, Roger was a partner at Optiver between 1996 and 2003. He served on the Supervisory Board of ThinkCapital Holding B.V. between 2010 and 2012.

# Supervisory Board Report

## Message of the Chairman

2016 was the first year that the Supervisory Board went through the entire cycle of its responsibilities, including working on the budget, strategy, and annual figures, as well as the General Meeting and its various committees. It was also the first year we carried out a self-assessment.
In general, the conclusion is positive. Each Supervisory Board meeting was notable for its in-depth, passionate, and productive discussions about a wide range of topics, a number of which included presentations from senior management who updated us on developments in the financial markets.

### *Company developments*

Despite challenging market conditions, characterized by lower volatility and decreased market activity, the company was able to increase its market share. It also grew the number of products it trades in and opened an Institutional Trading operation in the US and Asia, strengthening its position and paving the way for further increase of volume traded. At the same time, Flow Traders invested in new systems, infrastructure and people, helping to create a more robust and future-proof company. Building a stronger franchise in periods of decreased market activity will pay off when volumes increase.

### *A year in review*

During the year the Supervisory Board discussed a range of topics at its regular meetings and within its four committees: Remuneration and Appointments; Audit; Trading and Risk; and Technology.

One key topic was the company's senior management structure in relation to its growth ambitions. The Supervisory Board discussed the benefits of expanding the company's Management Board, which was extended to three members following the appointment of Marcel Jongmans as CFO in October. As well as taking responsibility for the company's finances, Marcel will also be responsible for investor relations, Mid-Office and the relationships with our prime brokers.

During the year the Supervisory Board agreed the company would initiate an internal audit function, providing the company with three lines of defense. This is now in place and the Supervisory Board was satisfied with the process to establish it. The Supervisory Board also finalized the new remuneration policy, which was agreed at the Annual General Meeting (AGM) in May. Discussions were held in the Remuneration and the Appointment committee on what is the best policy to support the company's growth ambitions and its culture. Topics that were considered include risk, the requirements of the company's employees, and the general market.

In May, at the company's first Annual General Meeting, the Co-CEOs and the Supervisory Board had the opportunity to discuss with shareholders the progress we are making as a company. Transparency and the need to successfully outline our business model were key features of the meeting, which also provided an ideal opportunity to explain the company's vision and outlook.

### *A unique culture*

The Supervisory Board had a number of discussions throughout the year on Flow Traders' internal culture. The Supervisory Board recognizes that the company has a very special culture, characterized by its hard working, innovative, and highly-talented people who share the ambition to be part of a company grows and develops. The Supervisory Board believes that it is very important the company preserves this culture, and aims to ensure future growth ambitions, which will require new hires, do not cause the culture to become diluted.

### *Looking ahead*

During its self-assessment, the Supervisory Board recognized that there is some overlap between the committees. To address this, it intends to increase efficiency and restructure the committees in 2017. Additional focus areas will be on the company's strategy and future plans, while the upcoming MiFID II regulations and developments in remuneration will also be key topics.

**Regards,**
Eric Drok
Chairman of the Supervisory Board

OUR PEOPLE

*Name* ***Thijmen Klok***

*Position* ***Team Lead Performance, Amsterdam***

*Name* ***Rein Moes***

*Position* ***Relationship Manager Institutional Trading, Amsterdam***

# 'Climbing Mt. Kilimanjaro for War Child, we all made it to the top''

*At the beginning of 2017, eight employees from Flow Traders flew out to Tanzania for the adventure of a life time. Their goal? To climb Africa's highest peak, Mount Kilimanjaro. In addition to the individual challenge, the team had another objective: to raise as much money as it could for War Child, a non-governmental organization that provides assistance to children in areas experiencing conflict and the aftermath of conflict. In total, the team raised over €40,000 for the charity. Two of the team's participants, Thijmen Klok and Rein Moes, talk about why they got involved and what the climb meant to them.*

*How did you come to choose Mt. Kilimanjaro and how did the eight of you get together?*
Thijmen: 'In the run up to Christmas 2015 the company gave everyone the opportunity to give money to a charity of their choice. Quite a few chose War Child, and through this one of our colleagues heard about the War Child Kilimanjaro charity trek. I went to the information evening and became enthusiastic about the idea. I then sent out emails to see if anyone else in the company was interested, and we ended up with eight very keen participants.'

Rein: 'The first time I saw the email from Thijmen I was very intrigued, and once I investigated a bit more I knew it was a win-win situation: an incredible adventure together with colleagues, combined with the chance to raise money for a great cause.'

*Can you tell us how the trip was organized?*
Thijmen: 'Most of the organization is done by War Child, but we had to prepare well and make sure we were physically capable of carrying out the climb. As part of our training we spent a weekend camping and hiking in the Ardennes, in southeast Belgium. We also organized an information day on altitude sickness, which helped us prepare for the physical challenges. It was our responsibility to organize the kit, which in most cases meant borrowing or buying, as well as paying for our own flights, accommodation and fees. We decided to have the same jackets, which the company co-sponsored. And they also very generously provided a large part of the €20,000 sponsorship we needed to raise.'

Rein: 'Besides from going the actual distance and height of the track, there are two other considerable challenges when going up Mount Kilimanjaro. One is how to cope with the 5 different climate zones you go through during the climb, ranging from a rain forest zone on the bottom of the mountain to a glacial zone at the top. War Child arranged collaboration with a local outdoor sports gear retailer, who was very forthcoming with advising us on the clothing and gear we needed to a make it through these different climate zones. Furthermore, they were kind enough to provide us with a discount, their way of contributing to the good cause. The second challenge is the lack of oxygen in the air higher on the mountain. Altitude sickness is one of the main reasons why people fail to make it to the top. Therefor we got in contact with a physiotherapist specialized in performing on high altitude and altitude sickness training. We learned about what high altitude does to your body and mind and he gave us insight in our personal susceptibility to altitude sickness. Thereafter, to best prepare our bodies for performing with a lack of oxygen, we rented a machine simulating these circumstances. This proved to be very helpful for adapting to the circumstances higher on the mountain.'

*What do you hope to get out of the adventure personally?*
Thijmen: 'I wanted to see if I could do it. And it's a motivation for the future. You realize that if you put your mind to it, you can really achieve what you want. It was also a great opportunity to become healthier.'

Rein: 'Beyond the fitness, I found that the trip provided me with a very good insight into my physical capabilities and mental resilience. Looking back, this will give us all greater strength and tolerance. And, of course, it has brought us closer to each other as a group. We had to really work together as a team, motivating one another to stay strong but we all made it to the the top.'

## Meetings of the Supervisory Board

In 2016 the Supervisory Board members met eight times to hold formal Supervisory Board meetings and met a number of times without holding a formal Supervisory Board meeting; for instance, to prepare for the Extraordinary General Meeting, education day and self-assessment. During these meetings the following items were discussed (among other items):

- **The company's strategy and associated risks**
  Reviewing the company's risks assessment processes and the monitoring of the company's internal risk management and control systems have been identified as a priority and joint responsibility of the Supervisory Board and all committees. The assessment comprises an overview of all relevant risks the company is exposed to, the internal controls in place to address these risks, and the Management Board's views on such risks.
- **Updates from each of the committees**
  The organizational topics relating to the composition of the committees and recurrence of meetings were discussed.
- **New legislation and regulations**
  The Supervisory Board was updated regularly on MiFID II, capital requirements, remuneration, the new Corporate Governance Code, and other items. These topics were also discussed during the education day, when the Management Board, other company representatives, and external specialists gave the members insights into the business and relevant legal topics.
- **Financial results**
  The Supervisory Board was updated on the company's financial, legal and compliance risks through the Audit Committee. Other topics discussed were the annual, half-yearly and quarterly results.
- **The company's proposed governance structure and related documentation**
  Each year the Supervisory Board assesses all of the company's policies, By-Laws and Terms of Reference of each of the committees.
- **Industry related updates**
  Relevant updates were provided by the Heads of specific departments.
- **Large investments**
  The Management Board explained and discussed any large investments with the Supervisory Board.
- **Remuneration and bonuses of Management Board and employees**
  The Remuneration and Appointment Committee updated the Supervisory Board on remuneration and bonus plans for both employees and the Management Board.
- **The newly installed Internal Audit Function**
  The process of installing and implementing an Internal Audit Function were discussed.
- **The appointment of a new CFO**
  The Supervisory Board discussed the proposal to nominate Marcel Jongmans as CFO.
- **Organizational topics relating to the composition of the committees and recurrence of meetings**
  One of the meetings included a day of training sessions, during which the Management Board, other company representatives, and external specialists gave the members insights into the business and relevant legal topics, including MiFID II and the Dutch Corporate Governance Code.

With the exception of one meeting in which one of the Supervisory Board members was absent, all meetings were fully attended. The Management Board also attended each meeting in full or in part. All meetings were held at the company's offices in Amsterdam.

*'The Supervisory Board was updated regularly on MiFID II.'*

### Evaluation of the Supervisory Board

The Supervisory Board reviewed its own performance through self-assessment and its own functioning using a survey. In preparation of the self-assessment, a number of people from within the business, including the Management Board, and the Global Heads of the Trading, Technology, Risk and Mid-Office, and Legal and Compliance departments, were interviewed to assess the Supervisory Board's performance. Items that were assessed and discussed included the composition of the Supervisory Board, specific knowledge about the business of Flow Traders, attendance of the meetings, the functioning of the Company Secretary, the committees, education, and professional development.

### Profile of the Supervisory Board

The Supervisory Board profile provides that the qualifications of a particular candidate and fit with the company's needs shall always prevail when filling a position. When selecting members, the Supervisory Board aims for a balance in nationality, gender, age, experience, and active or retired backgrounds. In addition, there will be a balance in the experience and affinity with the nature and culture of the business of the company. The Supervisory Board strives to realize a diverse composition in the nomination and appointment process for vacancies of its members, while taking into account the overall profile and selection criteria for appointments of suitable candidates to the Supervisory Board. As such, diversity, including gender-related, is an important consideration in the selection process for (re-) appointment of Supervisory Board members.

### Independence of the Supervisory Board

Our Supervisory Board profile provides that, given the highly specialized and competitive nature of the Company's business activities, certain members of the Supervisory Board should preferably have a broad and in-depth knowledge of its business activities and the fast paced environment in which it operates. Jan van Kuijk, Roger Hodenius and Han Sikkens, as former board members and shareholder representatives, were attracted for their role as Supervisory Board members because of their specific business-related expertise. All Supervisory Board members, except for one member, should be independent within the meaning of the Dutch Corporate Governance Code. Jan van Kuijk, Roger Hodenius and Han Sikkens do not qualify as independent under the provisions of the Dutch Corporate Governance Code as they are all former members of the Management Board of the company prior to conversion and represent shareholders of the company. For further information, reference is made to the section on Major Shareholders in the chapter on Our Governance.

### Committees

The Supervisory Board has four committees: an Audit Committee, a Remuneration and Appointment Committee, a Trading and Risk Committee, and a Technology Committee. Each committee has a preparatory and/or advisory role to the Supervisory Board. The composition of the committees is as follows:

| Audit Committee | Remuneration & Appointment Committee | Trading & Risk Committee | Technology Committee |
|---|---|---|---|
| Olivier Bisserier (Chairman) | Rudolf Ferscha (Chairman) | Roger Hodenius (Chairman) | Jan van Kuijk (Chairman) |
| Eric Drok | Eric Drok | Olivier Bisserier | Olivier Bisserier |
| Jan van Kuijk | Roger Hodenius | Rudolf Ferscha | Roger Hodenius |
| Han Sikkens | Jan van Kuijk | Jan van Kuijk | Han Sikkens |

Olivier Bisserier, as Chairman of the Audit Committee, is a financial expert as set out by the Dutch Corporate Governance Code. Both the Chairman of the Audit Committee and the Chairman of the Remuneration and Appointment Committee qualify as independent under the provisions of the Dutch Corporate Governance Code.
The Trading and Risk Committee and Technology Committee have been established to cater for the monitoring of and advising on specific business related topics and reflect our business model of Pricing, Cutting-Edge Technology Platform and Risk Management Focus. These Committees are chaired by the founders and former Management Board members of the company. For more information on the responsibilities of our committees, please refer to the chapter Our Governance.

The committees report to the Supervisory Board by sharing their advice and recommendations during the Supervisory Board meetings and by circulating the minutes of the meetings or reports. All meetings were held at the company's offices in Amsterdam.

### *Audit Committee*

The Audit Committee met five times in 2016, with each meeting fully attended. Other attendees included one of the Co-CEOs, CFO, the Global Heads of Finance and Tax and the external auditor, who had a standing invitation to each meeting.

During these meetings the Committee discussed the annual results, the half yearly results and the quarterly results. Other topics discussed included the Management Board's assessment of the company's internal risk and control systems, new and proposed legislative initiatives related to accounting, auditing and financial reporting, tax planning, the company's compliance with rules and regulations, the company's Code of Conduct and Whistle-blower Policy, and the company's financing strategy (including the interim dividend proposal). The company's external auditor, Ernst & Young Accountants LLP (EY), attended all meetings. Topics discussed with the external auditor included their unqualified interim review report, their Audit Plan, and the transition planning for the financial year 2016. The Audit Committee reviewed the management letter issued by the former external auditor KPMG Accountants N.V. (KPMG) and discussed the actions taken by management to address KPMG's recommendations and observations.

#### External auditor

The Audit Committee and the Management Board reported to the Supervisory Board on EY's functioning as the external auditor, on its fees, as well as on other audit and non-audit services it provided to the company. EY performed a review of the company's interim financial statements and issued an unqualified review report. The Audit Committee evaluated the qualifications, performance and independence of EY, taking into account the opinions of the Management Board. The Audit Committee also obtained a report from the external auditor regarding, among other topics, its internal quality control procedures. EY confirmed its independence from Flow Traders in accordance with the professional standards applicable to it. EY's lead audit partner was present at all of the Audit Committee meetings held in 2016. KPMG was present at the first two meetings of the Audit Committee, related to 2015 results in its role as prior years auditor.

#### Review internal audit function

The company is intensely focused on risk management and monitors its activities on a real-time, fully automated basis using its robust risk management framework. Flow Traders' trading professionals, who closely monitor the trading system, are the company's first line of defense. The Risk and Mid-Office, Compliance and Finance departments serve as other internal lines of defense. In addition, exchanges and prime brokers provide various risk controls, monitoring, and data that the company can use to reconcile its own records, while the regulators and other professional parties query the company from time to time in respect of, among others, processes and risk controls. The Management Board came to the conclusion that the company requires an internal audit function, which subsequently was approved by the Audit Committee and the Supervisory Board. The Internal Audit function was installed during 2016. For more information, please refer to the section on the internal audit function in the chapter Our Governance.

### *Remuneration and Appointment Committee*

The Remuneration and Appointment Committee met five times in 2016. Except for one meeting in which one of the committee members was absent, all meetings were fully attended. Other attendees included the Management Board, the Global Head of HRM and Recruitment and the Global Head of Legal and Compliance. During the meetings the Remuneration and Appointment Committee established its ways of working together, reviewed the company's General Remuneration Policy and drafted proposals to the Supervisory Board for the remuneration practices to be pursued for the Management Board and staff of the company. It also drafted proposals for the remuneration of the individual members of the Management Board for adoption by the Supervisory Board. Further, the appointment of a new member of the Management Board (CFO) was prepared for adoption by the Supervisory Board, and for the further submission to the General Meeting for adoption. The size, composition and functioning of the Supervisory Board and Management Board was reviewed and findings reported to the Supervisory Board. Other duties included the monitoring of developments of the Dutch Corporate Governance Code and regulations in relation to remuneration policies and the preparation of the Remuneration Report.

### *Trading and Risk Committee*

The Trading and Risk Committee met four times in 2016, with each meeting fully attended. The main focus in the meetings was the Management Board's risk assessment. The Management Board (in part or in full), the Global Heads of Trading and the Global Head of Risk and Mid-Office attended all meetings. The attendees discussed in detail the relevant risks the company is exposed to, the internal controls in place to address these risks, and the Management Board's views on such risks. The Trading and Risk Committee was also briefed by the Global Head of Trading on developments in the Trading department, including growth areas and budget matters. Additionally, the Trading and Risk Committee set about structuring itself in terms of scope of reference, reporting lines, and attendance of invitees.

***Technology Committee***

The Technology Committee met three times in 2016, with each meeting fully attended. Invitees of the meeting were one of the Co-CEOs, and the relevant Global Heads.
The Technology Committee discussed the company's IT budget for 2017, IT-related investments and expenses, the main technology-related risks facing the company and the focus on recruiting new talent. Recurring items were the state of the company's hardware, software, innovation, cyber-security, and HR-related topics. Hiring new technology talent remains a challenge, with many companies competing for the same people. To help address this challenge, the company expanded its in-house recruitment team. This paid off, with the Technology department growing significantly in 2016.

## Financial statements and dividend

The 2016 financial statements were prepared by the Management Board. They were discussed both with the Audit Committee and the Supervisory Board, in attendance of EY. The financial statements were audited by EY, who issued an unqualified auditor's report. Reference is made to the auditor's report on page 103 of the financial statements.
The Supervisory Board approved the financial statements as audited by EY, including the company's dividend proposal.
We invite the General Meeting to:

- adopt the financial statements for 2016;
- adopt the dividend proposal as proposed by the Management Board and approved by the Supervisory Board;
- discharge the Management Board for their management and the Supervisory Board for its supervision of the company in the financial year under review.

## Remuneration report

The remuneration of the Management Board consists of a relatively modest fixed base salary and a variable compensation in cash. The awarding of variable remuneration to the members of the Management Board – as well as to all employees – is entirely dependent on the company's profit in any given year. In that sense, our remuneration policy works as a risk mitigating tool and a self-correcting mechanism. If there is no profit, no variable remuneration will be awarded. If there is profit, the variable remuneration awarded to all employees and the Management Board is capped at 40% of the company's operating profits result over the performance year minus applicable adjustments (e.g. taxes, capital charges and extraordinary items). Historically, this has amounted to approximately 36% of our operating result. If the company incurs a loss, deferred variable remuneration is reduced or forfeited entirely. In accordance with the global remuneration model in place for all employees, the members of the Management Board are entitled to annual variable compensation based on performance in respect of individual criteria and the contribution to the success of the company as whole. These criteria reflect quantitative and qualitative criteria related to non-financial performance. Variable remuneration, if awarded, is paid in cash in instalments and may be reduced or clawed back under circumstances described in the Remuneration Act, Dutch corporate law and the Dutch Corporate Governance Code.

Please see the section on the Remuneration of the members of the Management Board in the chapter on Remuneration for a more detailed description.

## Thank you

Finally, the Supervisory Board would like to thank the members of the Management Board and all of Flow Traders' employees for their tireless efforts and resilience.

Amsterdam, 16 March 2017

Eric Drok
Jan van Kuijk
Olivier Bisserier
Rudolf Ferscha
Roger Hodenius
Han Sikkens

**IMPLEMENTATION OF MIFID II**

*Name* ***Wieger ten Have***

*Position* ***Compliance Officer, Amsterdam***

# *'The entire market structure of Europe is being redefined'*

*MiFID II introduces new rules that will apply to market makers that use algorithmic trading, including high frequency trading strategies. Can you explain how this will impact Compliance within the company?*
The underlying principles of MiFID II are not completely new. They should be the standard for everyone who applies algorithmic trading techniques. MiFID and, for example, ESMA guidelines apply to all firms operating in our industry, and prescribe standards on transparency, controls, governance and so on. To a large extent, adhering to these guidelines would already give you good coverage on the basics of MiFID II. So the consensus is already there, and we now have to connect all the dots to have the tools to be 100 percent compliant by the 2018 introduction date.

*Can you list and elaborate on the top-5 MiFID II topics that will impact Flow Traders?*
The main issues that affect us will be record keeping, pre-and post-trade transparency, trade publication, trade reporting, and change management. One of the operational outcomes of this is that all of the exchanges we trade on will have to implement MiFID II on their systems, which means there will also be an operational burden on the exchanges and their clients to implement this in time. The biggest challenge with MiFID II at the moment is that there is still a great deal of uncertainty, with many topics open to interpretation. To help resolve this we participate in MiFID II discussions with other market participants and FIA EPTA, the European Principal Traders Association and APT, the Association of Proprietary Traders. Whoever is interested in getting clarification can discuss their issues in the group and FIA EPTA and APT can take the questions to the regulator.

*What steps have Compliance taken to prepare for the introduction of MiFID II?*
We've been involved with discussions and consultations from the very beginning, which has enabled us to explain the impact potential regulations would have on our business and the business of our market peers. In this way we've been able to share knowledge with the regulators and help them better understand what it is we do, which leads to more effective legislation. As the legislation takes shape, it's our job to analyse the impact it will have on the business. We then see where we have coverage and where we have gaps, before translating the new rules into usable information that can be implemented across the business.

*How comfortable are you with the introduction of MiFID II?*
I think that I feel fairly comfortable with the process so far. There are still some operational aspects that need to be finalised in the coming months, but it's a work in progress. Across the business, focus groups working with other firms will ensure we move forward in tandem, which means there'll be no nasty surprises the closer we get to the deadline. So market participants, from banks, brokers, liquidity providers such as Flow Traders, and exchanges right through to the national regulators are all involved. The entire market structure of Europe is being redefined. So if you take into account the uncertainty that is still there we have to look at how much time and effort is being put in by the industry to become MiFID II compliant. I think it's fair to ask whether or not MiFID II is perhaps overshooting its original ambition, although we believe greater transparency will help the markets, which of course is a good thing.

# Remuneration

**We want to attract and retain the best talent available. We believe that awarding an attractive and competitive remuneration package is an important part of our proposition to candidates and employees. Therefore, we offer our employees a combination of fixed and variable pay. We share a single firm-wide variable remuneration pool and people are awarded a share of that pool based on their performance. No variable remuneration is awarded if there is no or insufficient profit or capital.**

## Introduction

We not only create transparency in the financial markets, we also firmly believe in being transparent. Our global remuneration model provides for a detailed and transparent awarding procedure with appropriate checks and balances and publication requirements. The company has discussed the company's remuneration model with regulators, legislators, major shareholder representatives and shareholder representative bodies.

## Key principles and policy

Our global remuneration model reflects our key principles by practically implementing our general remuneration policy as approved by the General Meeting and published on our website (the General Remuneration Policy), the Dutch Act on Remuneration Policy of Financial Undertakings (Wet Beloningsbeleid Financiële Ondernemingen, the Remuneration Act), and related laws and regulations in a manner that is tailored to the size of our enterprise and the way it is organized, as well as the nature, scope and complexity of our business activities.

Our global remuneration model implements the General Remuneration Policy approved by the General Meeting on 19 May 2016, the Remuneration Act and related laws and regulations in practice, in a manner that is tailored to the size of our company and the way it is organized. It takes into account the nature, scope and complexity of our business activities and is consistent with, and promotes, sound and effective risk management. It encourages alignment of the risks taken by employees and of the company itself, and does not encourage risk taking which is inconsistent with our risk profile. It is in line with our business strategy, objectives, values and interests and includes measures to avoid conflicts of interest. Finally, it must not lead to the risk that third parties are treated improperly (although we do not provide any investment service or ancillary service to third parties).

## Our global remuneration model

We are committed to attracting and retaining the best talent available. Our staff, including the members of the Management Board, receive competitive remuneration packages. This includes a fixed gross salary and an award from the singular firm-wide variable remuneration pool. The remuneration pool is accrued throughout the year at 40% of Flow Traders' operating result over the performance year minus applicable adjustments (e.g. taxes, capital charges and extraordinary items), reflecting company performance. Historically this amounts to approximately 36% of our operating result. The variable component of the total remuneration is dynamic, as it is a function of operating result: if there is no or insufficient profit or capital, there will be no variable remuneration. For example, if in any given year no profit is made, none of our employees will receive any variable remuneration. If the company incurs a loss, deferred variable remuneration is reduced or forfeited entirely. This policy also applies to members of the Management Board.

We apply an annual performance cycle. At the beginning of each calendar year clear objectives are set depending on an employee's role, which are in line with our objectives for the year and corporate key competencies: drive, ownership and teamwork. Performance is reviewed during mid-year and year-end staff appraisals.

Individual variable remuneration payable from the collective bonus pool is dependent on company and business unit performance, individual performance and the individual's contribution to the long-term success of the company as a whole, discouraging a culture of 'star' behavior and fostering collaboration and teamwork. Flow Traders does not base variable remuneration on financial results achieved individually. The Supervisory Board approves the awarding of variable remuneration.

If awarded, for most recipients variable remuneration is paid in cash in two or three annual instalments. The deferred variable component acts as a first loss tranche to compensate any operating loss in the subsequent year, acting as a buffer before such loss would impact shareholder equity. This serves as an important incentive for risk-aware behavior, keeping in mind the long-term objectives of the company and alignment with our risk appetite. We deem the deferral period sufficient given the company's risk profile and horizon. Variable remuneration components may become subject to reduction or claw back if it is determined that the relevant employee or member of the Management Board did not meet adequate norms of competence and appropriate behavior or was responsible for behavior that led to a substantial deterioration of the company's position, in accordance with applicable law.

We do not award guaranteed variable remuneration to employees unless the guaranteed variable component is awarded in relation to hiring new staff, limited to the first year of employment, and only if we have a sound and strong capital base. We do not award severance payments if there is a serious imputable act or negligence by the employee in the fulfilment of his or her function or where an employee resigns voluntarily (unless this is the consequence of a serious imputable act or negligence *(ernstig verwijtbaar handelen of nalaten)* by the company). Employees did not receive any shares or loans from the company as part of their compensation package in 2016. We do not provide any other ancillary benefits for any employee. We have not reserved or accrued any amounts to cover pension claims or retirement claims.

## Remuneration of the members of the Management Board

### *Introduction*

This section constitutes the remuneration report prescribed by best practice provision II.2.12 of the Dutch Corporate Governance Code. The remuneration of, and other agreements with, the members of the Management Board are required to be determined by the Supervisory Board with due observance of the General Remuneration Policy and applicable laws and regulations. The Supervisory Board has assessed the remuneration of the Management Board members based on their performance in 2016.

The remuneration of our Co-CEOs and CFO consists of a relatively modest fixed base salary and a variable, partially deferred, remuneration in cash. Our CFO, Marcel Jongmans, took office on 1 October 2016. As set out in the convening notice for the Extraordinary General Meeting held on 26 September 2016 in respect of his appointment, Marcel Jongmans was compensated for benefits he forfeited by leaving his previous employer. He was entitled to a one-off payment of €150,000 and a one-off minimum bonus for performance year 2016 which (i) was pro-rated to his tenure in 2016, and (ii) depended on the size of, and be paid from, the aggregate bonus pool accruing for performance year 2016. The table below shows the total remuneration awarded to the individual members of the Management Board over 2016.

### *Fixed remuneration*

All members of the Management Board were awarded a gross fixed base salary of €94,608 over 2016 (pro-rated in case of Marcel Jongmans).

| | Dennis Dijkstra, Co-CEO | Marcel Jongmans CFO | Sjoerd Rietberg, Co-CEO |
|---|---|---|---|
| Gross fixed base salary 2016 | €94,608 | €23,652 | €94,608 |
| One-off fixed compensation for forfeited benefits | | €150,000 | |
| Variable remuneration for 2016, to be paid out in instalments (see Adjustments to variable remuneration below) | €1,814,750 | €223,125 | €1,814,750 |
| ***Total*** | **€1,909,358** | **€396,777** | **€1,909,358** |

### *Variable remuneration*

Based on actual performance over 2016, all members of the Management Board were awarded a total combined variable remuneration of €4,002,625. The variable remuneration awards to the members of the Management Board are determined on the basis of the following principles:

- Firstly, the maximum variable remuneration is set by the Supervisory Board within the limits of the firm-wide variable remuneration pool for a given year. As set out above, the pool historically amounts to approximately 36% of operating result and is directly contingent upon positive operating results. Financial performance indicators are therefore integrated into this self-correcting mechanism: the variable remuneration of the members of the Management Board will be a direct reflection of actual realized company performance.
- Secondly, within those limits the variable remuneration is determined annually on the basis of a management-assessment performance framework. This framework translates Flow Traders' strategic business objectives into predetermined, assessable performance criteria that can be influenced by the Management Board's performance within a Balanced Performance Scorecard. This Scorecard is composed of four non-financial focus areas, which aim to robustly assess the Management Board member's performance within Flow Traders' operating environment and stakeholder interests. These four areas comprise Growth, External Relationships, Internal Processes / Excellence, and People and Culture. Each year, targets are set for the following performance elements, which are assessed annually in order to determine management's performance and variable remuneration:

#### Growth

- Hire and retain the talent needed to facilitate growth
- Operate on more venues & platforms, both on- and off-screen
- Increase the number of institutional counterparties
- Cover more products

#### External Relationships

- Expand the number of prime brokers
- Ensure continuous compliance with rules and regulations and maintain positive relationships with regulators
- Ensure that the investor community is properly informed

#### Internal Process / Excellence

- Improve technical infrastructure
- Improve the pricing and market knowledge
- Reduce (variable) cost of trading
- Have all the desired (risk) controls in place

#### People & Culture

- Ensure the four-eyes principle operates throughout the organization
- Reduce key-man dependency
- Maintain the Flow Traders culture, based on Drive, Teamwork and Ownership

**Adjustments to variable remuneration**

Variable remuneration to members of the Management Board, is paid in cash in two instalments for Marcel Jongmans and three annual instalments for the Co-CEOS and may be reduced or clawed back under circumstances described in the Remuneration Act. As explained in the section above on our global remuneration model, the deferred variable component acts as a first loss tranche to compensate any operating loss in the subsequent year, before such loss would impact shareholder equity. If the company incurs a loss, deferred variable remuneration is reduced or forfeited entirely. In addition to the reduction and claw back provisions of the Remuneration Act, Dutch law and the Dutch Corporate Governance Code provide that the remuneration of the members of the Management Board may be reduced or they may be obliged to repay (part of) their variable remuneration to the company if certain circumstances apply.

Pursuant to the Dutch Corporate Governance Code and applicable laws and regulations, any variable remuneration component conditionally awarded to a member of the

Management Board in a previous financial year which would, in the opinion of the Supervisory Board, produce an unfair result due to extraordinary circumstances during the period in which the predetermined performance criteria have been or should have been applied, the Supervisory Board will have the power to adjust the value downwards or upwards. In addition, the Supervisory Board will have the authority under the Dutch Corporate Governance Code and applicable Dutch law, including the Remuneration Act, to recover any variable remuneration awarded from a member of the Management Board on the basis of incorrect financial or other data (claw back). In addition, variable remuneration components may become subject to claw back and malus pursuant to the Remuneration Act and related regulations.

Pursuant to Dutch law, the Supervisory Board may furthermore adjust the variable remuneration (to the extent that it is subject to reaching certain targets and the occurrence of certain events) to an appropriate level if payment of the variable remuneration were to be unacceptable according to requirements of reasonableness and fairness.

**Analyses carried out in respect of variable remuneration**
Best practice provisions II.2.1 and II.2.2 of the Dutch Corporate Governance Code provide that scenario analyses are to be conducted in order to analyze the possible outcomes of the variable remuneration components. The variable remuneration of the members of the Management Board is contingent upon a future, unknown, metric: the accrued firm-wide variable remuneration pool which itself depends on the operating result for the given financial year.

Because of the nature of our business activities and the fast paced industry in which we operate, the Supervisory Board tracks actual performance of the Management Board members and eligibility for variable remuneration throughout the year, rather than performing a more hypothetical scenario analysis prior to a financial year while performing a single, one-off, assessment at the end of the year as set out in the best practice provisions. Quarterly discussions take place between the Management Board members and the Remuneration and Appointment Committee for this purpose. In this manner the Supervisory Board regularly assesses the performance indicators and the potential resulting variable remuneration for the Management Board members.

As mentioned, compensation of the members of the Management Board is limited to a relatively modest fixed remuneration component and a variable component dependent on operating result being realized. They did not receive share-based remuneration or other elaborate incentive schemes. This limits the number of scenarios to be meaningfully assessed as prescribed by the best practice provisions.

***No shares, pensions, loans and other benefits***
In 2016 the members of the Management Board did not receive any shares and no loans were granted by the company to the members of the Management Board as part of their compensation package. We have not reserved or accrued any amounts to cover pension claims or retirement claims. We do not provide any other ancillary benefits for any member of the Management Board.

***Limited severance payments***
We do not award severance payments to members of the Management Board that exceed 100% of their annual fixed remuneration, and do not award severance payments if there is a serious imputable act or negligence by the employee in the fulfilment of their functions, where they resign voluntarily (unless this is the consequence of a serious imputable act or negligence (*ernstig verwijtbaar handelen of nalaten*) or failure by the company), and we do not intend to award such payments in the future. In addition, relevant limitations apply under the Remuneration Act.

## Remuneration of the members of the Supervisory Board

The General Meeting determines the remuneration of the members of the Supervisory Board following a proposal by the Supervisory Board. The remuneration of the members of the Supervisory Board consists of a fixed base salary and cannot be dependent upon the company's results.

None of the members of the Supervisory Board may receive shares, options for shares or similar rights to acquire shares as part of his or her remuneration. None of the members of the Supervisory Board may hold shares, options for shares or similar securities other than as a long-term investment. The members of the Supervisory Board may also not hold such securities, other than in accordance with the rules on holding or transacting in the company's securities. Members of the Supervisory Board may not accept personal loans or guarantees from the company, other than in the normal course of business and subject to the prior approval of the Supervisory Board.

### *Fixed gross compensation*

The table below shows the total fixed compensation awarded to the individual members of the Supervisory Board. There are no separate committee fees.

| | Fixed compensation per annum |
|---|---|
| Eric Drok | €75,000 |
| Jan van Kuijk | €50,000 |
| Olivier Bisserier | €50,000 |
| Rudolf Ferscha | €50,000 |
| Roger Hodenius | €50,000 |
| Han Sikkens | €50,000 |

### *No variable remuneration shares, pensions, loans and other benefits*

The members of the Supervisory Board did not receive variable remuneration for their work as members of the Supervisory Board or any share-based remuneration, and no loans were granted by the company to the members of the Supervisory Board as part of their compensation package. We have not reserved or accrued any amounts to cover pension claims or retirement claims. We do not provide any other ancillary benefits for any member of the Supervisory Board.

## Remuneration disclosures

In 2016, the total amount of variable remuneration awarded to all employees including members of the Management Board was €58.4 million (2015: €87.9 million). The table below sets out the number of employees that were awarded an annual remuneration of €1 million or more and the respective business unit for which they have mainly conducted their activities. Payment remains subject to deferral and potential claw back or forfeiture under the circumstances set out above, including where the company would incur a loss.

| Business Unit | Number of employees to whom an annual remuneration of €1 million or more was awarded | |
|---|---|---|
| | 2016 | 2015 |
| Europe | 13 | 20 |
| Americas | 4 | 8 |
| Asia | 2 | 4 |
| ***Total*** | **19** | **32** |

Remuneration regulations are subject to change.
We continuously monitor such changes but currently cannot assess in full what the exact implementation or impact of such changes will be. Changes may have a significant impact on the General Remuneration Policy, our global remuneration model and other remuneration practices of the company and its group companies. It may also impact our ability to attract or retain talent given the global and highly competitive nature of our industry.

*‘MiFID II is designed to create more transparency in the market’*

***Randolf Paling***
*Co-Head of Trading*

# Our Governance

**We operate a two-tier governance structure, consisting of a Management Board and a Supervisory Board. The Management Board is responsible for the day-to-day management of the company, formulating strategies and policies, and setting and achieving our objectives. The Supervisory Board supervises and advises the Management Board. Each board is accountable to the General Meeting for the performance of its duties. Our governance is reflected in our internal rules and regulations, including our Articles of Association, Management Board By-Laws, Supervisory Board By-Laws, and the Terms of Reference of our Supervisory Board committees. These, together with our policies, can be found on our website.**

## Management Board

### *General*

Our Management Board consists of two Co-CEOs (Dennis Dijkstra and Sjoerd Rietberg) and one CFO (Marcel Jongmans). Two of them can jointly represent the company, reflecting the four-eyes principle we operate across the company: two people must sign off on significant business decisions. The Management Board is charged with managing the company, subject to the limitations set out in the Articles of Association and the Management Board By-Laws. The Management Board is guided by the interests of the company and its business, taking into consideration the interests of the company's stakeholders, including our employees and our shareholders. Before the Management Board can approve any resolutions entailing a significant change in the identity or nature of the company or what we do, it must obtain the approval of the General Meeting. The Management Board also has to obtain the approval of the Supervisory Board for a number of resolutions specified in the Management Board By-Laws.

### *Appointing and dismissing Management Board members*

As set out in more detail in our Articles of Association and the Management Board By-Laws, the Supervisory Board makes a non-binding nomination or proposal to appoint, suspend or remove a Management Board member. Following a nomination by the Supervisory Board, the General Meeting can appoint members of the Management Board by an absolute majority of the votes cast, representing more than one third of the issued capital of the company. Appointment of a different candidate than the one proposed by the Supervisory Board requires an absolute majority of the votes cast at the General Meeting, representing at least 50 percent of the issued capital of the company. Management Board members are appointed for a maximum term of four years. Any (re)appointment of a member of the Management Board must be approved by the Dutch Central Bank (DNB).

The General Meeting can suspend or remove a member of the Management Board upon a proposal by the Supervisory Board with an absolute majority of the votes cast. If votes within the Supervisory Board meeting tie on a proposed nomination, suspension, or dismissal, the General Meeting shall decide. Suspension or removal of a Management Board member which was not proposed by the Supervisory Board requires an absolute majority of the votes cast at the General Meeting, representing at least 50 percent of the issued capital of the company.

## Supervisory Board

### *General*

The Supervisory Board supervises the Management Board and the general course of affairs of the company and its business. The Supervisory Board considers the organizational structure of the company as a whole, as well as general and financial risks and the internal risk management and control systems. In performing its duties, the Supervisory Board acts in accordance with the interests of the company and takes the relevant interests of the company's stakeholders into account. The Supervisory Board is responsible for the quality of its own performance, which is reviewed annually. In 2016 the Supervisory Board consisted of six members: Eric Drok (Chairman), Jan van Kuijk (Vice-Chairman), Olivier Bisserier, Rudolf Ferscha, Roger Hodenius and Han Sikkens. See also Our Supervisory Board.

### *Appointing and dismissing Supervisory Board members*

When a member of the Supervisory Board is to be appointed, suspended, or removed, the Supervisory Board makes a non-binding nomination or proposal. Following a nomination by the Supervisory Board, the General Meeting may appoint a Supervisory Board member by an absolute majority of the votes cast, representing more than one third of the issued capital of the company. Appointment of a different candidate than the one proposed by the Supervisory Board requires an absolute majority of the votes cast at the General Meeting, representing at least 50 percent of the issued capital of the company. If votes within the Supervisory Board meeting tie on the proposed nomination, the General Meeting decides. Supervisory Board members are appointed for a maximum term of four years. Any appointment of a member of the Supervisory Board must be approved by the Dutch Central Bank (DNB). DNB needs to be notified in writing in case of re-appointments of members of the Supervisory Board.

Following a proposal by the Supervisory Board the General Meeting may suspend or remove members of the Supervisory Board by an absolute majority of the votes cast. The suspension or removal of a Supervisory Board member without a proposal by the Supervisory Board requires an absolute majority of the votes cast at the General Meeting, representing at least 50% of the issued capital of the company.

### *Internal organization*

#### Committees

The Supervisory Board has four committees: an Audit Committee, a Remuneration and Appointment Committee, a Trading and Risk Committee and a Technology Committee. Each of the committees has a preparatory and/or advisory role to the Supervisory Board. They report their findings to the Supervisory Board, which is ultimately responsible for all decision-making. Terms of Reference apply for each committee and the Co-CEOs and CFO have a standing invitation for each committee meeting. For effectiveness, meetings can also be held jointly with the entire Supervisory Board.

#### Audit Committee

The Audit Committee discusses the quarterly, interim, and annual figures and supervises the provision of the company's financial information. It also advises the Supervisory Board on the nomination of the external auditor, who is appointed by the General Meeting. It is in regular contact with the internal audit function and the external auditor and monitors the auditor's independence. In addition to advising the Management Board on tax matters and financing, it is also responsible for supervising relevant legislation and regulations and codes of conduct. In addition to the Co-CEOs and the CFO, the Global Co-Heads of Finance and Tax were invited to each meeting. In addition, we installed an Internal Audit Function in 2016. The Group Internal Auditor also attends meetings of the Audit Committee.

#### Remuneration and Appointment Committee

The Remuneration and Appointment Committee drafts proposals for the company's remuneration policy. It proposes the remuneration of the individual members of the Management Board to the Supervisory Board, and reviews the proposal of the Management Board of the annual remuneration and bonuses of all employees. It is also responsible for carrying out annual assessments of the individual members of the Supervisory Board and the Management Board. Where necessary, the Remuneration and Appointment committee drafts proposals for (re) appointments and drafts selection criteria and appointment procedures for the Supervisory Board and Management Board. Depending on the topics discussed, the Co-CEOs, CFO or relevant Global Heads and relevant others are present at committee meetings.

#### Trading and Risk Committee

The duties of the Trading and Risk Committee include supervising and monitoring the operation of our internal risk management and control systems, and advising the Management Board on these operations. It reviews the company's risk assessment processes, at least annually. The committee also monitors the manner in which the company's risk management function is provided with (adequate) resources and appropriate access to information, bearing in mind that it should be able to function sufficiently independently from management. The Trading and Risk Committee is also responsible for providing advice to the Management Board on the company's development, performance and sustainability of its trading strategies. It maintains regular contact with our Trading and Risk and Mid-Office departments. The Global Heads of these departments and relevant others are invited to committee meetings.

**Technology Committee**
The Technology Committee is responsible for reviewing the company's technology budget, supervising the operation of the company's security systems, and assessing the state of the company's technology in terms of competitiveness and functionality at least once a year. It also supervises the Management Board on the operations of the Company's security systems and related risks. It maintains regular contact with our Technology department. The relevant Global Heads and other people are invited to committee meetings.

## General Meeting, shares and shareholders

Flow Traders holds a General Meeting of Shareholders (General Meeting) within six months of the end of the financial year. The agenda for this meeting includes the adoption of the annual accounts; the content of the annual report covering the previous year's financial business; the policy of the company on additions to reserves and on distributions of profits; any proposal to distribute profits; filling vacancies on the Management Board; proposals placed on the agenda by the Management Board; and the release from liability of the members of the Management Board and the Supervisory Board for their performance during the financial year. General Meetings can also be held as often as the Management Board or the Supervisory Board deem necessary. A General Meeting is also convened in case of a decision entailing a significant change in the identity or character of the company or its business.

One or more shareholders representing at least the statutory threshold of 3% of the voting rights may request that the Management Board place items on the agenda of a General Meeting. Such a request must be honored by the Management Board provided that the request is received in writing at least 60 days before the date of such a meeting.

During the Annual General Meeting held on 19 May 2016 in Amsterdam, the Netherlands, shareholders voted in favor of adopting the annual accounts, determining the total dividend at €1.50 per share, discharging members of the Management Board and Supervisory Board from liability, adopting the revised general remuneration policy, granting the authority to issue shares and the authority to restrict or exclude pre-emptive rights (see below for more detail), granting the authority to acquire own shares (see below) and appointing EY as our auditor.

Extraordinary General Meetings will be held if the Management Board or the Supervisory Board is requested to that effect in writing by one or more holders of shares (or holders of rights in rem (*beperkte rechten*) who also hold the voting rights in relation to those shares) individually or jointly representing 10% or more of the issued capital, specifying the details to be discussed.

The company held an Extraordinary General Meeting on the appointment of Marcel Jongmans as a member of the Management Board and CFO on 26 September 2016.

Our next Annual General Meeting will be held on 24 May 2017 in Amsterdam, the Netherlands. More information is available on our website, www.flowtraders.com.

### *Voting rights*
Each share carries one vote in the General Meeting. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast. Votes can be cast at the General Meeting either in person or by proxy. These proxies can be granted electronically or in writing to the company or to independent third parties, such as a civil-law notary.

### *Amendment to the Articles of Association*
The General Meeting may pass a resolution to amend the Articles of Association or to wind up the company with an absolute majority of the votes cast. This can only be done if the Management Board has proposed to amend the articles or wind up the company. The proposal has to be approved by the Supervisory Board.

When a proposal to amend the Articles of Association or to wind up the Company is made to the General Meeting, the intention to propose such resolution must be stated in the relevant notice convening the General Meeting. If it concerns an amendment to the Articles of Association, a copy of the proposal in which the proposed amendment is quoted verbatim must at the same time be deposited at the company's office and this copy shall be made available for inspection by the shareholders until the end of the General Meeting.

### *Issue of shares*
Shares are issued by a decision of the Management Board. This decision must be approved by the Supervisory Board.

During the General Meeting held on 19 May 2016, our shareholders renewed the authority of the Management Board, subject to the Supervisory Board's approval, to issue ordinary shares or to grant rights to subscribe for ordinary shares up to and including 19 November 2017 for: (i) up to 10% of the total number of shares issued at the time of the

General Meeting for any purposes; plus (ii) up to an additional 10% of the total number of shares issued at the time of the General Meeting in connection with (a) capital requirements or regulatory requirements or (b) in connection with mergers, acquisitions and strategic alliances. Any issuance exceeding these limits needs approval by the General Meeting.

In addition, the General Meeting renewed the authority of the Management Board, subject to the Supervisory Board's approval, to restrict or exclude applicable pre-emptive rights when issuing ordinary shares or granting rights to subscribe for ordinary shares up to and including 19 November 2017.

At our next Annual General Meeting on 24 May 2017, the Management Board will request that the General Meeting renews its authorization to issue shares for up to 10% of the total number of shares issued at the time of the Annual General Meeting for any purposes.

***Repurchase of Shares***

Shares may be repurchased by the Company by a decision of the Management Board. This decision must be approved by the Supervisory Board. During the General Meeting held on 19 May 2016, our shareholders renewed the authority of the Management Board to, subject to the Supervisory Board's approval, acquire shares in the capital of the Company, either through purchase on a stock exchange or otherwise. The authority applies up to and including 19 November 2017, under the following conditions: the repurchase (i) may constitute up to 10% of the total number of shares issued at the time of the General Meeting; (ii) provided that the company will not hold more shares in stock than 10% of the issued share capital; and (iii) at a price (excluding expenses) not less than the nominal value of the shares and not higher than the opening price on Euronext Amsterdam on the day of repurchase plus 10%. Any repurchases exceeding these limits need approval by the General Meeting.

At our next Annual General Meeting on 24 May 2017, the Management Board will request that the General Meeting renews its authorization to repurchase shares.

## Major shareholders

The following shareholders filed their interests in the capital of the company exceeding 3% to be included in the AFM's register of substantial holdings and gross short positions, www.afm.nl (data as of 31 December 2016). A shareholder must file or update its holdings if its interest exceeds, or drops below, 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. For further detail on individual shareholdings please refer to the AFM's register.

| SHAREHOLDINGS ON 31 DECEMBER 2016 | | Filing date |
|---|---|---|
| R. Hodenius (Avalon Holding B.V.) | 14.27% | 15 July 2015 |
| J.T.A.G. van Kuijk (Javak Investments B.V.) | 14.27% | 15 July 2015 |
| Summit Partners Private Equity Fund VII-A, L.P. | 5.39% | 15 July 2015 |
| Summit Partners Private Equity Fund VII-B, L.P. | 3.24% | 15 July 2015 |
| Allianz Global Investors GmbH | 3.01% | 16 December 2016 |

Following a transaction announced on 15 February 2017, which was completed on 20 February 2017, the following shareholdings were filed with the AFM's register:

| SHAREHOLDINGS ON 20 FEBRUARY 2017 | | Effective date |
|---|---|---|
| R. Hodenius (Avalon Holding B.V.) | 12.27% | 20 February 2017 |
| J.T.A.G. van Kuijk (Javak Investments B.V.) | 12.27% | 20 February 2017 |
| Summit Partners Private Equity Fund VII-A, L.P. | 0% | 20 February 2017 |
| Summit Partners Private Equity Fund VII-B, L.P. | 0% | 20 February 2017 |

### Relationship agreement and shareholders agreement

Avalon Holding B.V., Javak Investments B.V. and the combined entities advised by Summit Partners (Summit entities) entered into a relationship agreement and a shareholders' agreement. According to the AFM's register of substantial holdings and gross short positions these parties together controlled 37.13% of our shares (data as of 31 December 2016). As a result of a transaction announced on 15 February 2017 which was completed on 20 February 2017 the substance of the relationship agreement and the shareholders agreement has been affected. Specific implications for the company will be further discussed in subsequent financial reports.

The relationship agreement is a Dutch law governed agreement that contains certain arrangements regarding the relationship between the parties thereto, which also includes the company. The agreement grants each of these shareholders a specific right to nominate or designate one Supervisory Board member for appointment (and replacement). This right expires, in respect of each relevant party, if such party ceases to, directly or indirectly, hold more than 5% of the shares in the company provided that and for as long as, in aggregate, Avalon Holding B.V. and Javak Investments B.V. together continue to, directly or indirectly, hold more than 5% of the company's shares, Avalon Holding B.V. and Javak Investments B.V. shall be entitled to jointly designate one Supervisory Board member for appointment. The relationship agreement also governs the composition of the Supervisory Board committees. The agreement terminates in respect of each of the shareholders, if such party's aggregate shareholding in the company (be it direct, indirect or together with a permitted transferee) falls below 5% of the company's outstanding share capital. In case of, among other things, the company becoming subject to insolvency procedures, liquidation, delisting, a merger or a spin-off (with the company as disappearing entity), the agreement automatically terminates.

Under the shareholders' agreement governed by Dutch law, Avalon Holding B.V., Javak Investments B.V. and the Summit entities have agreed on certain arrangements in respect of their shareholding in the company. These arrangements include an obligation for each of the parties to vote in favor of the appointment of any individual designated by any of them as a member of the Supervisory Board in accordance with the terms of the relationship agreement (as described above). Furthermore, the parties agreed to reserve the right to consult with each other and coordinate the exercise of their voting rights attached to their respective shares in the company. The shareholders' agreement also contains arrangements in respect of a party's disposal or transfer of shares in the company, including tag-along and permitted transfer provisions. As long as the parties to the shareholders' agreement adhere to provisions set out therein and control in aggregate 30% or more of the voting rights in the company's General Meeting, each of Avalon Holding B.V., Javak Investments B.V. and the Summit entities as well as their ultimate controlling persons, is able to benefit from the exemption from the Dutch mandatory offer requirement set out in Section 5:71 sub 1 (i) of the Dutch Financial Supervision Act (*Wet op het Financieel Toezicht*). The shareholders' agreement terminates for any party if such party's aggregate shareholding in the company (be it direct or indirect) falls below 3% of the company's outstanding share capital and in case of, among other things, the company becoming subject to insolvency procedures, liquidation, delisting, a merger or spin-off (with the company as disappearing entity).

### No dedicated take-over protection structures

Flow Traders does not employ any of the following dedicated take-over protection structures: preference shares, depositary receipts or call options issued to vehicles conducive to protecting the company's interest or independence.

## Internal audit

During 2016 Flow Traders has set up an internal audit function (Internal Audit) at Group level. At Flow Traders, Internal Audit is not a box ticking exercise. It strives to be seen as 'the improvement department' by providing tangible benefits to the company as a whole, looking around the corner, identifying the right risks and asking the right questions: what could go wrong and how can we prevent it from happening?

The Internal Audit team consists of the independent Group Internal Auditor, reporting directly to the Management Board and Audit Committee, assisted by two team members and external advisors where required. The internal audit function is an integral part of our reporting and audit cycle, aligns its efforts with the external auditor and reports during each Audit Committee meeting.

The Internal Audit Plan 2016-2017 focuses on risk and trading systems and controls, operational resilience, data handling, profit performance reports and payments processes. The internal audit function can also carry out specific evaluations at the request of the Management Board or the Audit Committee.

## Principles of financial reporting and tax policy

Flow Traders is prudent and transparent in respect of its financial reporting and its relations with tax authorities globally. With regard to financial reporting, conservative accounting principles are being applied and one-offs must occur infrequently and be clearly documented.

Flow Traders operates a transparent and straightforward tax policy as we believe that this is of importance for running a sustainable business and delivering long-term value to all of the company's stakeholders. For every business decision, tax aspects are presented and weighed as part of the decision making process. The commercial needs will in no circumstances override compliance with (tax) laws and strives to be compliant with the spirit of the law.
The company supports transparency initiatives such as the country-by-country reporting and Base Erosion and Profit Shifting from the OECD. For further details regarding the company's tax policy, we refer to the 'Tax Principles' published on the company's website. The tax function within the company will therefore provide appropriate input as part of the approval process for business proposals to ensure a clear understanding of the tax consequences. We have good standing relationships with the tax authorities in each region. We pro-actively manage our relationship with the tax authorities with the aim of minimizing the risk of challenge, dispute or damage that could have an impact on our credibility. We concluded a horizontal supervision agreement with the Dutch tax authorities (*horizontaal toezicht*) with a view to further strengthening our transparent and professional relationship with the tax authorities. Tax laws, rules and interpretations are continuously subject to a changing social view towards tax and we cannot be certain of continued benefit from certain favorable tax regimes like among others the FSI Schemes in Singapore and innovation box regime in the Netherlands. The key stakeholders in the Tax Control Framework are well-established and include the Supervisory Board, Managing Board, Finance & Tax department and external auditors. With the aforementioned stakeholders involved in the company's tax policy process, it is able to assess and weigh the tax decision process for its business and stakeholders.

Flow Traders pays taxes where profits are earned in accordance with local tax legislation. We do not use tax haven jurisdictions[1] for tax avoidance purposes and carry out our business through entities in jurisdictions where we factually operate our business. With this simple tax philosophy in place, the company can operate its business in line with its belief that it is part of the corporate social responsibility duty to pay taxes where it operates. For more information on our tax position, please refer to note 12 of the financial statements.

[1] *As defined by the OECD.*

## Compliance and integrity

Flow Traders commits to being in compliance with all relevant laws and regulations that apply to it, anywhere, including in respect of anti-corruption laws. Integrity and transparency is central to the way we operate our business, from our Management Board and Supervisory Board to all our staff, regardless of their role. The company encourages an open culture within its organization and expects its employees to comply with applicable laws, regulations and internal policies. Each employee is responsible for ensuring an honest and ethical conduct of business within the company. Please refer to the chapter Flow Traders and Society for more details on our anti-bribery, anti-corruption and anti-money laundering policies, our Code of Conduct and our Whistle-blower Policy.

### *Compliance with the Dutch Corporate Governance Code*

The Dutch Corporate Governance Code defines a company as a long-term form of collaboration between the principal corporate bodies of a company. For us, these corporate bodies include the Management Board, the Supervisory Board and the General Meeting. The Management Board values and considers the interests of the various stakeholders involved. According to the Dutch Corporate Governance Code, good corporate governance results in effective decision-making in a manner which enhances shareholder value and enables a company to maintain a culture of integrity, transparency, and trust.
We acknowledge the importance of good corporate governance and endeavor to comply in general with the provisions of the Dutch Corporate Governance Code and comply fully with it, with the exception of the following provisions:

- **Analyses carried out in respect of variable compensation**
  Best practice provisions II.2.1 and II.2.2 of the Dutch Corporate Governance Code provide that scenario analyses are to be conducted in order to analyze the possible outcomes of the variable compensation components. The variable remuneration for the members of the Management Board is contingent upon a future, unknown, metric: the accrued firm-wide variable remuneration pool which itself depends on operating result for the given financial year. Because of the nature of our business activities and the fast paced industry in which we operate, the Supervisory Board tracks actual performance of the Management Board members and eligibility for variable compensation throughout the year, rather than performing a more hypothetical scenario analysis prior to a financial year while performing a single, one-off assessment at the end of the year as set out in the best practice provisions. Quarterly discussions take place between the Management Board members and the Remuneration and Appointment Committee for this purpose. In this manner the Supervisory Board regularly assesses the performance indicators and the potential resulting variable compensation for the Management Board members.
- **Independence Supervisory Board members**
  Best practice provision III.2.1, provides that all Supervisory Board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2. Jan van Kuijk, Roger Hodenius and Han Sikkens were attracted for their role as Supervisory Board members because of their specific business-related expertise. They do not qualify as independent under the provisions of the Dutch Corporate Governance Code as they are former members of the Management Board of the company prior to its conversion and because they represent shareholders of the company. Our Supervisory Board profile provides that, given the highly specialized and competitive nature of the Company's business activities, certain members of the Supervisory Board should preferably have a broad and in-depth knowledge of its business activities and the fast paced environment in which it operates.
- **Independence committee members**
  Best practice provision III.5.1, provides that a maximum of one member of each committee may not be independent within the meaning of best practice provision III.2.1 above. Given the number of members of the Supervisory Board that are not independent, each of the Supervisory Board committees comprise of more than one non-independent Supervisory Board member. For further information see explanation on best practice provision II.2.1 above. Olivier Bisserier, as Chairman of the Audit Committee, is a financial expert as set out in the Dutch Corporate Governance Code. The Chairman of the Audit Committee and the Chairman of the Remuneration and Appointment Committee both qualify as independent under provisions of the Dutch Corporate Governance Code. The Trading and Risk Committee and Technology Committee have been established to cater for the monitoring of and advising on specific business related topics. These Committees are chaired by the founders and former Management Board members of the company.
- **Quorum**
  Best practice provision IV.1.1, which provides that the General Meeting of a company without a statutory two-tier board structure (*structuurregime*) may adopt a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to remove a member of the Management Board or of the Supervisory Board by an absolute majority of the votes cast. According to the Dutch Corporate Governance Code, it may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. If this proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favor of a resolution to cancel the binding nature of a nomination or to remove a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting. In deviation of this best practice provision, the company's Articles of Association prescribe that the General Meeting may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to remove a member of the Management Board or of the Supervisory Board by an absolute majority of the votes cast, representing more than 50% of the company's issued capital. In addition, the company's Articles of Association provide that if this quorum is not present or represented at the meeting, such resolution cannot be adopted and in order for such a resolution to be adopted, a new meeting should be convened in which more than 50% of the company's issued capital is represented and an absolute majority of the votes are cast in favor of such resolution.

## Corporate governance statement

The statement concerning corporate governance as referred to in section 2a of the decree on additional requirements for annual reports (*Vaststellingsbesluit nadere voorschriften inhoud jaarverslag*) effective as of 1 January 2010 (Decree) is comprised in the chapters Our Risk Management, Supervisory Board Report, and Our Governance as follows, to the extent that it is applicable to Flow Traders:

- compliance with the Dutch Corporate Governance Code can be found in the chapter Our Governance (section 3 of the Decree);
- the main features of our internal risk management and control systems relating to the financial reporting process can be found in the chapter Our Risk Management (section 3a sub a of the Decree);
- the functioning of our General Meeting, and the authority and rights of our shareholders can be found in the chapter Our Governance (section 3a sub b of the Decree);
- the composition and functioning of our Management Board, the Supervisory Board and its Committees can be found in the chapters Supervisory Board Report and Our Governance (section 3a sub c of the Decree);
- the disclosure of the information required by the Decree on Section 10 EU Takeover Directive can be found in the chapter Our Governance (section 3b of the Decree).

### *Corporate Governance Code 2017*

On 8 December 2016, the Dutch corporate governance committee published the final version of a revision of the Dutch Corporate Governance Code. The new Dutch Corporate Governance Code will apply to financial years starting on or after 1 January 2017. As such, all references in this report are based on and refer to the old code. The new Dutch Corporate Governance Code is structured around a number of themes as opposed to the current Dutch Corporate Governance Code which is based on a functional division of roles and responsibilities within a company.

Flow Traders welcomes the updates to the Dutch Corporate Governance Code and supports the emphasis of the new Dutch Corporate Governance Code on topics such as long term value creation and the importance of culture.
Flow Traders already complies with the vast majority of the provisions of the new Dutch Corporate Governance Code and will use the year 2017, to the extent required, to assess the need for a further alignment of its organizational structure and disclosures with a view to its compliance with the new Dutch Corporate Governance Code or the explanation of any deviation from the new Dutch Corporate Governance Code's provisions.

# Financial Statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION *In thousands of euro*

| | Note | At 31 December 2016 | At 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 2,736 | 1,925 |
| Financial assets held for trading | 14 | 4,611,770 | 3,392,765 |
| Trading receivables | 15 | 1,127,374 | 1,161,238 |
| Other receivables | 16 | 12,307 | 9,160 |
| Investments available for sale | 17 | 4,640 | 3,364 |
| Investments in associates | 18 | 1,343 | 808 |
| Property and equipment | 19 | 21,597 | 22,574 |
| Intangible assets | 20 | 1,570 | 1,503 |
| Current tax assets | 12 | 743 | 2,010 |
| Deferred tax assets | 12 | 5,592 | 4,106 |
| ***Total assets*** | | **5,789,672** | **4,599,453** |
| **Liabilities** | | | |
| Financial liabilities held for trading | 21 | 2,279,392 | 2,032,994 |
| Trading payables | 22 | 3,119,212 | 2,183,294 |
| Liabilities at fair value | 23 | 3,281 | 2,609 |
| Other liabilities | 24 | 109,836 | 119,170 |
| Current tax liabilities | 12 | 7,587 | 14,390 |
| Deferred tax liabilities | 12 | 273 | 449 |
| ***Total liabilities*** | | **5,519,581** | **4,352,906** |
| **Equity** | | | |
| Share capital | 25 | 4,653 | 4,653 |
| Share premium | 25 | 152,456 | 150,826 |
| Retained earnings | 25 | 93,887 | 74,024 |
| Currency translation reserve | 25 | 19,533 | 17,710 |
| Fair value reserve | 25 | (438) | (666) |
| ***Total equity*** | | **270,091** | **246,547** |
| ***Total equity and liabilities*** | | **5,789,672** | **4,599,453** |

The notes on pages 67 to 96 are an integral part of these consolidated financial statements.

# Consolidated statement of profit or loss and other comprehensive income

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS** *In thousands of euro*

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | | For the year ended |
| Gross trading income | | 354,589 | 400,118 |
| Fees related to the trading activities | | 56,082 | 56,723 |
| Net financial expenses related to the trading activities | | 48,503 | 38,676 |
| **Net trading income** | 9 | **250,004** | **304,719** |
| Employee expenses | 10 | 84,161 | 142,593 |
| Depreciation of property and equipment | 19 | 5,948 | 6,307 |
| Amortization of intangible assets | 20 | 364 | 471 |
| Write off of tangible and intangible assets | 19/20 | 2,775 | 457 |
| Other expenses | 11 | 47,115 | 40,478 |
| **Operating expenses** | | **140,363** | **190,306** |
| **Operating result** | | **109,641** | **114,413** |
| Result on equity-accounted investees | 18 | (199) | 696 |
| **Profit before tax** | | **109,442** | **115,109** |
| Tax expense | 12 | 17,506 | 17,818 |
| ***Profit for the period*** | | **91,936** | **97,291** |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | | |
| Foreign currency translation differences – foreign operations | 25 | 1,879 | 8,110 |
| Available for sale changes in fair value | | 228 | (781) |
| **Other comprehensive income for the year (net of tax)** | | **2,107** | **7,329** |
| ***Total comprehensive income for the year*** | | **94,043** | **104,620** |
| **Earnings per share** | | | |
| Basic and fully diluted earnings per share[1] | | 1.98 | 2.09 |

[1] *Earning per share over 2015 have been calculated as if the share were outstanding for the full year.*

The notes on pages 67 to 96 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *In thousands of euro*

| | Share capital | Share premium | Currency translation reserve | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | 4,653 | 150,826 | 17,710 | (666) | 74,024 | 246,547 |
| Profit | - | - | - | - | 91,936 | 91,936 |
| Total other comprehensive income | - | - | 1,879 | 228 | - | 2,107 |
| Reclassification Currency Translation Reserve | - | - | (55) | - | 55 | - |
| **Total comprehensive income for the period** | **-** | **-** | **1,823** | **228** | **91,992** | **94,043** |
| Transactions with owners of the Company | | | | | | |
| Share premium | - | 1,630 | - | - | - | 1,630 |
| Dividends declared | - | - | - | - | (72,129) | (72,129) |
| **Total transactions with owners of the company** | **-** | **1,630** | **-** | **-** | **(72,129)** | **(70,498)** |
| ***Balance at 31 December 2016*** | **4,653** | **152,456** | **19,533** | **(438)** | **93,887** | **270,091** |

| | Capital account member A | Capital account member B | Share capital | Share premium | Currency translation reserve | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 15,000 | 118,077 | - | - | 9,600 | 115 | - | 142,792 |
| Profit | - | - | - | - | - | - | 97,291 | 97,291 |
| Total other comprehensive income | | | | | 8,110 | (781) | | 7,329 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **8,110** | **(781)** | **97,291** | **104,620** |
| Transactions with owners of the Company | | | | | | | | |
| Capital contribution | - | 22,165 | - | - | - | - | - | 22,165 |
| Conversion of member capital to shares | (15,000) | (140,242) | 4,653 | 150,589 | - | - | - | - |
| Share premium | - | - | - | 237 | - | - | - | 237 |
| Dividends declared | - | - | - | - | - | - | (23,267) | (23,267) |
| **Total transactions with owners of the company** | **(15,000)** | **(118,077)** | **4,653** | **150,826** | **-** | **-** | **(23,267)** | **(865)** |
| ***Balance at 31 December 2015*** | **-** | **-** | **4,653** | **150,826** | **17,710** | **(666)** | **74,024** | **246,547** |

The notes on pages 67 to 96 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS** *In thousands of euro*

| | For the year ended 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Profit for the period** | **91,936** | **97,291** |
| Adjusted for: | | |
| Depreciation of property and equipment | 5,948 | 6,307 |
| Amortization of tangible and intangible assets | 364 | 471 |
| Impairment of tangible and intangible assets | 2,775 | 457 |
| Result on equity-accounted investees (net of tax) | 199 | (696) |
| Net financial expenses related to the trading activities | 48,503 | 38,676 |
| Tax expense | 17,506 | 17,818 |
| Changes in working capital | | |
| ■ Financial assets held for trading | (1,219,005) | (596,681) |
| ■ Change in Trading receivables | 33,864 | (665,582) |
| ■ Other receivables | (5,622) | (2,393) |
| ■ Financial liabilities held for trading | 246,398 | (301,271) |
| ■ Trading payables | 935,918 | 1,427,808 |
| ■ Other liabilities | (9,157) | 45,756 |
| ■ Other | 3,045 | 8,415 |
| **Cash flow from operations** | **152,680** | **76,376** |
| Interest paid | (49,585) | (39,579) |
| Interest received | 1,082 | 903 |
| Corporate income tax paid | (24,703) | (15,876) |
| ***Cash flows from operating activities*** | **79,474** | **21,824** |

## CONSOLIDATED STATEMENT OF CASH FLOWS *In thousands of euro*

| | For the year ended 2016 | 2015 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Net investments in available for sale instruments | (553) | (863) |
| Net investment in associates | (735) | - |
| Acquisition of property and equipment | (9,024) | (6,496) |
| Acquisition of intangible assets | (369) | (327) |
| ***Cash flows from investing activities*** | **(10,681)** | **(7,686)** |
| **Cash flows from financing activities** | | |
| Dividends paid | (72,128) | (34,561) |
| Capital contributions | 4,105 | 19,927 |
| ***Cash flows from financing activities*** | **(68,023)** | **(14,634)** |
| Effect of movements in exchange rates on cash and cash equivalents | 41 | 99 |
| ***Change in cash and cash equivalents*** | **811** | **(397)** |
| **Changes in cash and cash equivalents** | | |
| Cash and cash equivalents at opening | 1,925 | 2,322 |
| Cash and cash equivalents at close | 2,736 | 1,925 |
| ***Changes in cash and cash equivalents*** | **811** | **(397)** |

# Notes to the consolidated financial statements

*All amounts in thousands of euro, unless stated otherwise.*

## 1. *Reporting entity*

Flow Traders N.V. (referred to as the 'Company') is a public limited liability company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, having its seat (*statutaire zetel*) in Amsterdam, the Netherlands, having its registered office at Jacob Bontiusplaats 9, 1018 LL Amsterdam, the Netherlands and registered with the Trade Register of the Chamber of Commerce (*Kamer van Koophandel, afdeling Handelsregister*) under number 34294936.

These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is a leading global technology-enabled liquidity provider that specializes in exchange traded products (ETPs). The Group's goal is to be a leading ETP-focused liquidity provider.

The consolidated financial statements of the Group for the annual period ended 31 December 2016 incorporate financial information of Flow Traders N.V., its subsidiaries and associates. The annual financial statements were authorised for issue by the Company's Management Board and the Supervisory Board on 16 March 2016 subject to adoption by the General Meeting of shareholders.

## 2. *Going concern*

These financial statements have been prepared on the basis of the going concern assumption.

## 3. *Basis of preparation*

### a) Statement of compliance

The Group applies International Financial Reporting Standards as adopted by the European Union ('IFRS-EU'). IFRS-EU provides several options in accounting principles. The Group's accounting principles IFRS-EU and its decisions regarding the options available are set out in the section 'Significant accounting policies' below.

### b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items and unless otherwise indicated:

- financial assets and liabilities held for trading are measured at fair value with changes recognized in profit or loss;
- available for sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income, except for impairment losses which are recognized in profit or loss.

The balance sheet per 31 December 2015 included a reclassification between 'financial assets/ liabilities held for trading' to 'investments available for sale' and 'liabilities at fair value'. This reclassification relates to certain positions which classify as available for sale assets. As both positions off-set each other, the results on this positions are recognized directly in profit and loss.

### c) Functional and presentation currency

These consolidated financial statements are presented in euros, which is also the Group's functional currency. All financial information presented in euros has been rounded to the nearest thousand, except when otherwise indicated.

### d) Use of estimates and judgements

The preparation of the financial statements requires management to form opinions and make estimates and assumptions that influence the reported values of assets and liabilities and of income and expenditure. The actual results may differ materially from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period in which the estimate is revised. For more details, we refer you to the chapter on Fair values of financial instruments.

### e) Principles for the preparation of the consolidated statement of cash flows

The consolidated statement of cash flows is based on the indirect method.

The cash flows are split into cash flows from operations, including trading activities, investment activities and financing activities. Receivables from and payables to clearing organizations are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments other than in the course of operations, as well as acquisitions and sales of subsidiaries and associates, property and equipment. Movements to the extent that those have not resulted in cash flows are eliminated.

## 4. *Significant accounting policies*

The Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

### General

#### a) Basis of consolidation

The Group accounting policies have been applied consistently by all group entities. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any related non-controlled interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over its financial and operating activities. Control or significant influence follows from facts and circumstances, but there is a rebuttable presumption that significant influence when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### Business combinations

Business combinations are accounted for using the acquisition method as at the date control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

b) **Foreign currency**

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date, with the foreign currency difference recognized in profit or loss. Differences arising on the translation of available for sale equity investments are recognized in other comprehensive income unless the instrument is impaired.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) of equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

c) **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

d) **Financial assets and liabilities**

Recognition

The Group initially recognizes loans and advances on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

The Group classifies its financial assets into the following categories:

- loans and receivables;
- investments held-to-maturity;
- available for sale investments; and
- financial assets at fair value through profit or loss and within the following category as:
  - held for trading;
  - designated at fair value through profit or loss.

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, into the following categories:

- financial liabilities held for trading; and
- other financial liabilities.

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

### Other financial liabilities

Non-derivative financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

### Offsetting

Financial assets and liabilities are presented on a net basis when a legal right of offset is agreed between the parties and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS-EU, for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group valuates its daily trading positions based on theoretical prices whereby the price differences are recorded through the profit or loss account. Those theoretical prices can differ from quoted market prices. The Group's Risk and Mid-Office department monitors whether all differences can be substantiated.

Portfolios of financial assets and financial liabilities that are managed by the Group on the basis of the net exposure to either their market or credit risk are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk exposure of each of the individual instruments in the portfolio.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### e) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed once incurred.

Items of property and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets under financial leases are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- hardware: 5 years;
- office fixtures: 5 years;
- other: 5 years.

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### f) Intangible assets

Recognition and measurement

Intangible assets are amortized on a straight-line basis in profit or loss over the estimated useful lives of each component. The estimated useful live of significant intangible assets is 5 years.

Goodwill

Goodwill is initially recognized and in subsequent years measured at cost less accumulated impairment losses.

Goodwill in respect of equity-accounted investees is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Goodwill is tested annually for impairment.

### g) Leased assets

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as financial leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the Group's statement of financial position.

### h) Impairment

#### Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date for indications of impairment. A financial asset is impaired if there is objective evidence of a loss event which impacts the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available for sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve from equity to profit or loss. The loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less of impairment loss recognized previously in profit or loss.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

#### Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### i) Employee benefits

#### Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or (profit-sharing) structures if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### j) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

k) **Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease as lease expenses.

l) **Income recognition**

Net trading income comprises gross trading income less fees and net financial expenses related to the trading activities.

The fees and net financial expenses are directly linked to the trading activity and are therefore directly recognized in the profit and loss account under trading income.

m) **Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax payable also includes any withholding tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will be revised in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and management judgement. This assessment relies on estimates and assumptions and may involve judgement about future events. New information may become available that would cause the Group to change its judgement regarding the adequacy of existing tax liabilities or the collectability of tax assets. Such changes will impact tax expense in the period that such a change in estimate is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date.

## 5. *Operating segments*

The Group has the following regions in which it operates via its subsidiaries in Europe (the Netherlands, Romania), the Americas (the United States of America) and Asia (Singapore).

The Group's trading assets and liabilities attributable to each segment are reported to management on the basis of net liquidity. Consequently, the reported total assets in each segment are net of the segment's financial liabilities held for trading and trading payables.

## SEGMENT REPORTING

For the year ended 2016

| | Europe | Americas | Asia | Total |
|---|---|---|---|---|
| Gross trading income | 222,644 | 95,226 | 36,719 | 354,589 |
| Fees related to the trading activities | 38,386 | 11,428 | 6,268 | 56,082 |
| Net financial expenses related to the trading activities | 26,736 | 16,325 | 5,442 | 48,503 |
| **Net trading income** | **157,522** | **67,473** | **25,009** | **250,004** |
| Intercompany recharge | 20,498 | - | - | 20,498 |
| **Total revenue** | **178,020** | **67,473** | **25,009** | **270,502** |
| | | | | |
| Employee expenses | 55,603 | 18,987 | 9,571 | 84,161 |
| Depreciation of property and equipment | 3,875 | 1,330 | 743 | 5,948 |
| Amortization of intangible assets | 305 | 21 | 38 | 364 |
| Write off of (in) tangible assets | 2,748 | 3 | 24 | 2,775 |
| Intercompany recharge | - | 16,434 | 4,064 | 20,498 |
| Other expenses | 24,190 | 16,342 | 6,583 | 47,115 |
| **Operating expenses** | **86,721** | **53,117** | **21,023** | **160,861** |
| **Operating result** | **91,299** | **14,356** | **3,986** | **109,642** |
| Result/(impairment) of equity-accounted investees | 42 | (241) | - | (199) |
| **Profit before tax** | **91,341** | **14,115** | **3,986** | **109,443** |
| Tax expense | 11,254 | 6,074 | 178 | 17,506 |
| ***Profit for the period*** | **80,087** | **8,014** | **3,808** | **91,936** |
| | | | | |
| ***Assets*** | **259,290** | **96,420** | **40,894** | **396,604** |
| | | | | |
| Capital expenditure | 6,613 | 1,802 | 1,774 | 10,189 |
| ***Liabilities*** | **78,140** | **36,534** | **11,839** | **126,513** |

## SEGMENT REPORTING

For the year ended 2015

| | Europe | Americas | Asia | Total |
|---|---|---|---|---|
| Gross trading income | 242,075 | 70,708 | 87,335 | 400,118 |
| Fees related to the trading activities | 35,646 | 11,069 | 10,008 | 56,723 |
| Net financial expenses related to the trading activities | 23,931 | 8,669 | 6,076 | 38,676 |
| **Net trading income** | **182,498** | **50,970** | **71,251** | **304,719** |
| Intercompany recharge | 30,993 | - | - | 30,993 |
| **Total revenue** | **213,491** | **50,970** | **71,251** | **335,712** |
| | | | | |
| Employee expenses | 98,179 | 32,532 | 11,882 | 142,593 |
| Depreciation of property and equipment | 4,124 | 1,254 | 929 | 6,307 |
| Amortization of intangible assets | 281 | 117 | 73 | 471 |
| Write off of (in) tangible assets | 184 | 186 | 87 | 457 |
| Intercompany recharge | - | 4,326 | 26,667 | 30,993 |
| Other expenses | 23,693 | 12,170 | 4,615 | 40,478 |
| **Operating expenses** | **126,461** | **50,585** | **44,253** | **221,299** |
| **Operating result** | **87,030** | **385** | **26,998** | **114,413** |
| Result/(impairment) of equity-accounted investees | 696 | - | - | 696 |
| **Profit before tax** | **87,726** | **385** | **26,998** | **115,109** |
| Tax expense | 18,386 | (3,926) | 3,358 | 17,818 |
| ***Profit for the period*** | **69,340** | **4,311** | **23,640** | **97,291** |
| | | | | |
| ***Assets*** | **220,264** | **103,220** | **54,987** | **378,471** |
| | | | | |
| Capital expenditure | 7,229 | 842 | 454 | 8,525 |
| ***Liabilities*** | **94,928** | **23,732** | **13,263** | **131,923** |

## 6. *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

**IFRS 9 Financial Instruments**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Given the nature of the Group's operations and the fact that the trading portfolio is valued at fair value, the impact on the Group's financial statements is immaterial.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, permitting early adoption. Given the nature of the Group's operations the impact on the financial statements is expected to be nil.

**IFRS 16 Leases**

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's financial lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adopting IFRS 16, as the amount of the operational leases outstanding are limited and short term the impact is expected to be immaterial.

**IAS 12 Income Taxes**

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017.
As there are no deferred tax assets driven by the measurement of debt instruments.
The proposed amendment is therefore expected to be nil.

**IAS 7 Statement of Cash Flows**

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements).
The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

Other new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

## 7. *Fair values of financial instruments*

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Valuation models**

The Group measures fair values using the following fair value hierarchy, depending on the inputs used for making the measurements.

- Level 1: inputs that are quoted, unadjusted, market prices in active markets for identical instruments;
- Level 2: inputs, other than within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valuated using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered inactive; or other valuation techniques in which all significant inputs are directly or indirectly observable market data;
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes unobservable inputs that have a significant effect on the instrument's valuation. This category includes instruments that are valuated based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between independent market participants at the measurement date.

The Group uses widely recognized valuation techniques and models (including net present value models, BlackScholes option pricing models and comparisons with similar instruments for which market observable prices exist) for determining the fair value of common, simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices or model inputs (including risk-free and benchmark interest rates and credit spreads used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations) are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and thus reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

When the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

**Valuation framework**

The Group has a control framework with respect to the measurement of fair values. This framework includes a Risk and Mid-Office department which is independent of the Trading department and reports directly to the Management Board. The Risk and Mid-Office department has overall responsibility for independently verifying the results of trading and all significant fair value measurements. The daily reconciliation of the positions and prices between the prime brokers and the Trading department is most important.

The prime brokers of the Group provide electronic position statements on a daily basis, which are uploaded automatically into the Group's databases. The Group and its prime brokers agreed when files will be available and methods for transmission and communication. All data is normalized by the Group so it can be used in multiple internal systems. The information is mainly used for daily independent reconciliation of positions and prices, resulting in profit and loss accounts.

The following reconciliations are executed on a daily basis:

- reconciliation of the positions - The Risk and Mid-Office department reconciles the positions of the Trading department with information provided by the prime brokers. All differences are reconciled and agreed by the Trading department of the Group and the prime brokers;
- reconciliation of prices - The Risk and Mid-Office department reconciles prices as provided by the Trading Department with those of the prime brokers and/or data from external data vendors. All differences are reconciled and the Risk and Mid-Office department makes sure that any required follow up action is taken, either by the prime broker or the Trading department. Therefore, all prices are checked with independent sources.

Results of these reconciliation processes are communicated and agreed with Heads of Trading, the Risk and Mid-Office department and the Management Board on a daily basis.

### a) Financial assets and liabilities held for trading

The Group mainly trades on regulated and active markets. The financial assets and liabilities held for trading are carried at fair value, based whenever possible on quoted market prices, as published by exchanges, market data vendors and prime brokers.

The valuation of trading positions, both the long and the short positions, is determined by referencing to last traded prices from similar instruments from the exchanges at the reporting date. Such financial assets and liabilities are classified as Level 1.

A substantial part of the financial assets and liabilities held for trading are carried at fair value, based on theoretical prices which can differ from quoted market prices. The theoretical prices reflect price adjustments primarily caused by the fact that the Group continuously prices its financial assets and liabilities based on all available information. This includes prices for identical and near-identical positions, as well as the prices for securities underlying the Group's positions, on other exchanges that are open after the exchange on which the financial asset or liability is traded closes. The Group's Risk and Mid-Office department monitors whether all price adjustments can be substantiated with market inputs and checks the theoretical price independently. Consequently, such financial assets and liabilities are classified as Level 2.

For offsetting (delta neutral) positions, the Group uses mid-market prices to determine fair value.

### b) Available for sale investments

The fair value of available for sale investments is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique and are classified as level 2.

### c) Other receivables

The carrying value of other receivables with a maturity of less than one year is assumed to approximate their fair values.

**Fair value hierarchy**

| At 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Long positions in cash market products | 255,133 | 4,336,440 | - | 4,591,573 |
| Mark to market derivatives assets | - | 20,197 | - | 20,197 |
| **Financial assets held for trading** | **255,133** | **4,356,637** | **-** | **4,611,770** |
| Available for sale investments | - | 4,640 | - | 4,640 |
| ***Total long positions*** | **255,133** | **4,361,277** | **-** | **4,616,410** |
| Short positions in cash market products | 431,282 | 1,848,110 | - | 2,279,392 |
| Mark to market derivatives liabilities | - | - | - | - |
| **Financial liabilities held for trading** | 431,282 | 1,848,110 | - | 2,279,392 |
| Liabilities at fair value | - | 3,281 | - | 3,281 |
| ***Total short positions*** | **431,282** | **1,851,391** | **-** | **2,282,673** |

| At 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Long positions in cash market products | 234,903 | 2,298,077 | - | 2,532,980 |
| Mark to market derivatives assets | 64 | 859,721 | - | 859,785 |
| **Financial assets held for trading** | **234,967** | **3,157,798** | **-** | **3,392,765** |
| Available for sale investments | - | 3,364 | - | 3,364 |
| ***Total long positions*** | **234,967** | **3,161,162** | **-** | **3,396,129** |
| Short positions in cash market products | 292,264 | 1,312,503 | - | 1,604,767 |
| Mark to market derivatives liabilities | - | 428,227 | - | 428,227 |
| **Financial liabilities held for trading** | **292,264** | **1,740,730** | **-** | **2,032,994** |
| Liabilities at fair value | - | 2,609 | - | 2,609 |
| ***Total short positions*** | **292,264** | **1,743,339** | **-** | **2,035,603** |

Due to the short holding period between acquisition and sale, there are no transfers between Level 1 and Level 2. There are no Level 3 positions.

## 8. *Earnings per share*

The calculation of the earnings per share has been based on the profit for the year attributable to ordinary shareholders and number of ordinary shares outstanding.

The 2015 earnings per share are calculated as if the entity was a public limited liability company and the number of shares outstanding were average over 2015.

| EARNINGS PER SHARE | For the year ended | |
|---|---|---|
| | 2016 | 2015 |
| Profit for the year | 91,936 | 97,291 |
| ***Profit attributable to ordinary shareholders*** | **91,936** | **97,291** |
| | | |
| Weighted average number of shares | | |
| ***Issued ordinary shares converted at 9 July 2015*** | **46,534,500** | **46,534,500** |
| | | |
| ***Basic and fully diluted earnings per share*** | **1.98** | **2.09** |

## 9. *Net trading income*

Gross trading income comprises the realized and unrealized income on financial instruments.

Fees related to the trading activities consist of exchange fees, clearing fees and other trading related fees. Net financial expenses related to the trading activities mainly relate to interest expense on the credit facilities with the prime brokers calculated on the drawn amount during the year.

## 10. *Employee expenses*

| | For the year ended | |
|---|---|---|
| | 2016 | 2015 |
| Wages and salaries | 18,795 | 14,386 |
| Bonuses | 57,274 | 87,920 |
| Social security charges | 2,311 | 1,789 |
| Recruitment and other employment costs | 5,781 | 5,282 |
| Stock appreciation rights expenses | – | 33,216 |
| ***Employee expenses*** | **84,161** | **142,593** |

## 11. *Other expenses*

| | For the year ended | |
|---|---|---|
| | 2016 | 2015 |
| Technology | 34,762 | 27,477 |
| Housing | 3,407 | 3,218 |
| Advisors and assurance | 1,442 | 1,983 |
| Regulatory costs | 849 | 575 |
| Fixed exchange costs | 4,149 | 3,774 |
| IPO expenses | – | 1,865 |
| Various expenses | 2,506 | 1,586 |
| ***Other expenses*** | **47,115** | **40,478** |

IPO expenses relate to the one-off IPO costs incurred in relation to our listing in July 2015.

## 12. *Taxation*

### Current tax expenses

| | For the year ended 2016 | 2015 |
|---|---|---|
| Tax recognized in profit or loss | | |
| Current tax expense | 23,648 | 22,307 |
| Movement of deferred tax asset | (1,486) | (4,106) |
| Movement of deferred tax liability | (176) | (383) |
| Prior years' adjustments | (4,480) | - |
| ***Tax expense excluding share of tax of equity-accounted investees*** | **17,506** | **17,818** |

Reconciliation of the weighted average statutory income rate to the Group's effective income tax rate is as follows:

**RECONCILIATION OF EFFECTIVE TAX RATE**

| | For the year ended 2016 | 2015 |
|---|---|---|
| Profit before tax | 109,442 | 115,109 |
| Dutch income tax rate | 25.0% | 25.0% |
| Income tax expected | 27,361 | 28,777 |
| Actual income tax charge | 17,506 | 17,818 |
| In percentage | 16.0% | 15.5% |
| ***Difference in tax expense*** | **(9.0%)** | **(9.5%)** |

**RECONCILIATION OF EFFECTIVE TAX RATE**

| For the year ended | 2016 (€) | 2016 | 2015 (€) | 2015 |
|---|---|---|---|---|
| **Dutch tax rate** | **27,361** | **25%** | 28,777 | **25.0%** |
| Different weighted average statutory rate of group | 751 | 0.7% | (3,433) | (3.0%) |
| Income (partly) exempted | (7,552) | (6.9%) | (7,821) | (6.9%) |
| Other deductible costs | (3,055) | (2.8%) | 295 | 0.3% |
| Subtotal | (9,854) | (9.0%) | (10,959) | (9.5%) |
| ***Effective tax rate*** | **17,507** | **16.0%** | **17,818** | **15.5%** |

The Group's consolidated effective tax rate for 2016 is 16%. The change in effective tax rate was caused mainly by the following factor:

- Certain costs that were settled in 2015 were initially considered non-deductible for tax purposes, but have been approved by the tax authorities to be deductible, resulting a positive one-off benefit on the Group's effective tax rate of approximately 4% in 2016, without this one-off the effective tax rate would have been around 20%.

No tax was recognized in other comprehensive income in 2016 and 2015.

### Current tax assets and liabilities

| | At 31 December 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Europe (The Netherlands) | 25 | - |
| Americas (US) | 505 | 2,010 |
| Asia (Singapore) | 213 | - |
| ***Total current tax assets*** | **743** | **2,010** |
| **Liabilities** | | |
| Europe (The Netherlands) | 3,961 | 11,504 |
| Americas (US) | 3,217 | - |
| Asia (Singapore) | 409 | 2,886 |
| ***Total current tax liabilities*** | **7,587** | **14,390** |

### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| **Assets** | | |
| Other liabilities (long term bonus payable) | 5,592 | 4,106 |
| **Liabilities** | | |
| Property and equipment | (273) | (449) |
| ***Net asset/(liability)*** | **5,319** | **3,657** |

The utilization of the deferred tax asset is dependent upon the US achieving sufficient future taxable profit and subsequently the deductibility of the bonus instalments.

## 13. *Cash and cash equivalents*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Europe | 1,428 | 562 |
| Americas | 465 | 900 |
| Asia | 843 | 463 |
| ***Total cash and cash equivalents*** | **2,736** | **1,925** |

Cash and cash equivalents include a bank guarantee of €147,000 for office rent (2015: €147,000). The other cash and cash equivalents are available on demand.

## 14. *Financial assets held for trading*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Cash market products | 4,591,573 | 2,532,980 |
| Derivatives | 20,197 | 859,785 |
| ***Total financial assets held for trading*** | **4,611,770** | **3,392,765** |

## 15. *Trading receivables*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Receivables for securities sold | 1,127,374 | 1,161,238 |
| ***Total trading receivables*** | **1,127,374** | **1,161,238** |

In accordance with the Group's policy of trade date accounting for regular way sale and purchase transactions, receivables for securities sold represent amounts receivables for securities that are sold, but not yet settled as at the reporting date. The amount receivable is based on the net unsettled amount per clearing institution.

## 16. *Other receivables*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Prepayments | 6,817 | 3,623 |
| Dividend withholding tax | 2,394 | 1,966 |
| Receivable from employees | 271 | 2,475 |
| Security deposits | 804 | 745 |
| Other | 2,021 | 351 |
| ***Total other receivables*** | **12,307** | **9,160** |

All receivables have a maturity of less than 1 year.

## 17. *Available for sale investments*

| | At 31 December 2016 | 2015 |
|---|---|---|
| Net book amount 1 January | 3,364 | 2,975 |
| Acquisitions | 553 | 863 |
| Price movements | 913 | (427) |
| Currency movements | (190) | (47) |
| ***Total available for sale investments*** | **4,640** | **3,364** |

The investments of the Group in various exchanges, through participations or "member seats", are classified as available for sale. These investments are measured at fair value determined on the last available bid before year end in the foreign currencies which are translated to euros at exchange rates at the reporting date.

## 18. *Investments in associates*

| | At 31 December 2016 | 2015 |
|---|---|---|
| Net book amount 1 January | 808 | 106 |
| Investments | 735 | - |
| Share of result of subsidiary | (199) | 696 |
| Currency movements | (1) | 6 |
| ***Total investments in associates*** | **1,343** | **808** |

Investments in associates is primarily the Group's 24% ownership in Think ETF Asset Management B.V. (previously ThinkCapital Holding B.V.). As per 30 November 2016 the Group acquired 10% ownership in Pick Two LLC, a joint venture entity.

The Group holds Joint Back Office Clearing agreements with three prime brokers for a total amount of €57 thousand in their preferred shares.

In 2016 the Group received no dividends from its investments in associates (2015: nil)

## 19. *Property and equipment*

| | Hardware | Office fixtures | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 1 January 2015** | **12,588** | **8,008** | **8,391** | **28,987** |
| Additions | 5,182 | 2,785 | 39 | 8,006 |
| Disposals | (3,467) | (620) | - | (4,087) |
| Exchange rate differences | 680 | 171 | - | 851 |
| **Balance at 31 December 2015** | **14,983** | **10,344** | **8,430** | **33,757** |
| | | | | |
| **Balance at 1 January 2016** | **14,983** | **10,344** | **8,430** | **33,757** |
| Additions | 5,680 | 3,819 | - | 9,499 |
| Disposals | (2,189) | (337) | (8,430) | (10,956) |
| Exchange rate differences | 232 | 48 | - | 280 |
| ***Balance at 31 December 2016*** | **18,706** | **13,874** | **-** | **32,580** |
| | | | | |
| **Depreciation and impairment losses** | | | | |
| **Balance at 1 January 2015** | **4,789** | **1,095** | **2,237** | **8,121** |
| Depreciation for the year | 3,060 | 1,648 | 1,599 | 6,307 |
| Disposals | 2,971 | 586 | - | 3,557 |
| Exchange rate differences | 276 | 36 | - | 312 |
| **Balance at 31 December 2015** | **5,154** | **2,193** | **3,836** | **11,183** |
| | | | | |
| **Balance at 1 January 2016** | **5,154** | **2,193** | **3,836** | **11,183** |
| Depreciation for the year | 3,285 | 2,098 | 565 | 5,948 |
| Disposals | 1,602 | 278 | 4,400 | 6,280 |
| Exchange rate differences | 105 | 27 | - | 132 |
| ***Balance at 31 December 2016*** | **6,942** | **4,040** | **-** | **10,983** |
| | | | | |
| **Carrying amounts** | | | | |
| **At 1 January 2015** | **7,799** | **6,913** | **6,154** | **20,866** |
| **At 31 December 2015** | **9,829** | **8,151** | **4,594** | **22,574** |
| **At 31 December 2016** | **11,764** | **9,834** | **-** | **21,597** |

Part of the property and equipment was obtained under financial leases. The net carrying amount of the leased equipment was €1,920,000 at 31 December 2016 (2015: €1,914,000). Please refer to note 24 for an overview of the commitments related to these contracts.

## 20. *Intangible assets*

| | Software | Goodwill | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 1 January 2015** | **2,023** | **502** | **2,525** |
| Additions | 518 | – | 518 |
| Disposals | (839) | – | (839) |
| Exchange rate differences | 74 | – | 74 |
| **Balance at 31 December 2015** | **1,776** | **502** | **2,278** |
| | | | |
| **Balance at 1 January 2016** | **1,776** | **502** | **2,278** |
| Additions | 483 | – | 483 |
| Disposals | (497) | – | (497) |
| Exchange rate differences | 7 | – | 7 |
| ***Balance at 31 December 2016*** | **1,769** | **502** | **2,271** |
| | | | |
| **Depreciation and impairment losses** | | | |
| **Balance at 1 January 2015** | **971** | **–** | **971** |
| Depreciation for the year | 471 | – | 471 |
| Disposals | 712 | – | 712 |
| Exchange rate differences | 45 | – | 45 |
| **Balance at 31 December 2015** | **775** | **–** | **775** |
| | | | |
| **Balance at 1 January 2016** | **775** | **–** | **775** |
| Depreciation for the year | 364 | – | 364 |
| Disposals | 441 | – | 441 |
| Exchange rate differences | 3 | – | 3 |
| ***Balance at 31 December 2016*** | **701** | **–** | **701** |
| | | | |
| **Carrying amounts** | | | |
| **At 1 January 2015** | **1,052** | **502** | **1,554** |
| **At 31 December 2015** | **1,001** | **502** | **1,503** |
| **At 31 December 2016** | **1,068** | **502** | **1,570** |

Part of the intangible assets were obtained under a financial lease. The net carrying amount of leased Intangible assets was €360,000 at 31 December 2016 (2015: €340,000). Please refer to note 24 for more information about the commitments related to those contracts.

### Goodwill

In December 2010 the Group obtained control of TradeSense Solutions B.V. and its subsidiary Flow Traders Technologies SRL (formerly TradeSense Solutions SRL), a software development company with special focus on trading in electronic markets. The goodwill amounted to €502,000.

There were no additions or impairments to the goodwill in 2016 and 2015.

## 21. *Financial liabilities held for trading*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Short positions in equity securities trading | 2,279,392 | 1,604,767 |
| Derivatives | – | 428,227 |
| ***Total financial liabilities held for trading*** | **2,279,392** | **2,032,994** |

## 22. *Trading payables*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Payables for securities bought | 1,096,455 | 1,098,248 |
| Borrowings | 2,022,757 | 1,085,046 |
| ***Total trading payables*** | **3,119,212** | **2,183,294** |

### Payables for securities bought

In accordance with the Group's policy of trade date accounting for regular way sale and purchase transactions, payables for securities bought represent amounts payables for securities that were purchased, but not yet settled as at the reporting date. The amount payable is based on the net unsettled amount per clearing institution.

### Borrowings

The Group maintains portfolio financing facilities with its prime brokers to facilitate the trading activities (i.e. to finance the purchase and settlement of financial instruments). The drawn amounts on these facilities continuously fluctuate based on our trading positions at any given moment.

The Group entered into interest-bearing credit facilities with ABN AMRO Clearing Bank N.V. (ABN AMRO Clearing), totaling €2,450 million. In addition, the Group entered into interest-bearing credit facilities for portfolio margin financing with Bank of America Merrill Lynch (BAML). These facilities can be modified or terminated at any time. The facilities are exclusively for the financing of positions of the financial instruments traded in the ordinary course of the trading activities using ABN AMRO Clearing or BAML as prime broker, respectively. The facilities are collateralized by cash, as well as our trading accounts held with these financial institutions. In addition, the Group is required to post certain minimum capital with the respective prime broker as calculated by the prime broker.

Our prime brokers require the Group to post cash to cover the haircut or margin requirements (representing a minor portion of our portfolio's size, which is variable and calculated on a daily basis depending on portfolio size and composition) in cash or securities as security for our positions held with the relevant prime broker. The positions are subject to pledge and collateral arrangements.

### Covenants

Pursuant to the main covenants included in our facilities the Group is required to comply with a net liquidation balance that exceeds the haircut calculated by the prime broker. The minimum net liquidation value is €40 million. Both the net liquidation balance and haircut are variable and calculated on a daily basis, depending on portfolio size and composition. The main covenants prescribe certain maximum portfolio-to-loan size (variable and calculated on a daily basis, depending on portfolio composition). In addition, they require us to maintain a solvency ratio of at least 4%, calculated by adjusted shareholders equity divided by credit limit.

The main covenants also require the Group to supply our prime brokers with financial statements and other information, including information on our trading activities and trading counterparties, and permission to inspect our books and records. Furthermore, they require us to maintain all relevant authorizations and memberships required in order to conduct our business, and comply with all applicable laws, rules and regulations and place restrictions on mergers and disposition of our assets outside the ordinary course of our business.

## 23. *Liabilities at fair value*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Net book amount 1 January | 2,609 | 1,773 |
| Borrowings | - | 863 |
| Price movements | 972 | 82 |
| Currency movements | (300) | (109) |
| ***Total liabilities at fair value*** | **3,281** | **2,609** |

The liabilities available for sale relates to part of the investments available for sale that are borrowed from our prime brokers. The price and exchange rate differences are offsetting each other in the other comprehensive income.

## 24. *Other liabilities*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Long term loans | – | 261 |
| Long term bonus payables | 31,017 | 43,276 |
| Long term financial lease commitments | 821 | 1,026 |
| **Subtotal non current liabilities** | **31,838** | **44,563** |
| | | |
| Short term lease commitments/outstanding loans | 946 | 675 |
| Wages and bonuses payables | 69,148 | 64,103 |
| Wages tax payable | 751 | 872 |
| Creditors and accruals | 7,153 | 8,957 |
| **Subtotal current liabilities** | **77,998** | **74,607** |
| ***Total other liabilities*** | **109,836** | **119,170** |

**Financial lease commitments**

Financial lease liabilities are as follows:

| | Future minimum lease payments | | Interest | | Present value of minimum lease payments | |
|---|---|---|---|---|---|---|
| | **31 December 2016** | **31 December 2015** | **31 December 2016** | **31 December 2015** | **31 December 2016** | **31 December 2015** |
| Less than one year | 727 | 726 | 44 | 51 | 683 | 675 |
| Between one and five years | 849 | 1,068 | 28 | 42 | 821 | 1,026 |
| ***Total*** | **1,576** | **1,794** | **72** | **93** | 1,504 | **1,701** |

The Group concluded lease arrangements for IT investments that were classified as financial leases. At inception of the arrangements, payments were split into lease payments and related to other elements based on their fair value.

## 25. *Equity*

### Share capital and share premium

All ordinary shares rank equally with regard to the Company's residual assets. There are no preferred shareholders.

**ORDINARY SHARES**

| | 2016 | 2015 |
|---|---|---|
| In issue 1 January | 46,534,500 | - |
| Member capital converted to shares at conversion to N.V. | - | 46,534,500 |
| ***Total*** | **46,534,500** | **46,534,500** |

### Ordinary shares

Holders of the Company's ordinary shares are entitled to dividends and are entitled to one vote per share at general meetings of the Company.

Total authorized capital of the Company is € 10 million consisting of 100 million shares of which currently 46,534,500 shares are issued. The nominal value per share is € 0.10 each, and therefore the issued and paid up capital amounts to € 4,653,000.

Shares acquired by participants in 2015 as set out on page 22 are subject to a lock-up period. When a participant leaves the Company before the end of the lock-up period, the participant must offer any such unreleased shares to the Company at the lower of the price paid by the participant or the market price. During 2016, a third-party broker sold shares offered by leaving participants in the market during open periods, resulting in an increase of share premium of € 1.6 million. Total share premium therefore amounted € 152.5 million

### Currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

### Revaluation reserve

The revaluation reserve comprises the fair value movements on all investments available for sale of the Group.

### General distributions

Pursuant to Article 24.1 of the company's Articles of Association, the Management Board, with the approval of the Supervisory Board, has decided that of the profit for 2016 (totaling € 91.9 million), an amount of € 33.8 million shall be added to the reserves. The remaining amount of € 58.2 million is at the disposal of the General Meeting of Shareholders (General Meeting).

### Dividends

It is proposed to the General Meeting that a total cash dividend of € 1.25 per share will be paid out to shareholders for the financial year 2016, subject to a 15% dividend withholding tax. An interim cash dividend of €0.55 per share was paid out on 7 September 2016. This means that the final cash dividend proposal to the General Meeting of 24 May 2017 is € 0.70 per share.

## 26. *Stock Appreciation Rights (SARs)*

### Description of the Stock Appreciation Rights

During 2009 and 2011 the Group granted 28,080 and 24,441 Stock Appreciation Rights (SARs), respectively, to eligible senior employees that entitled them to a cash payment after 6 years of service after the grant date or earlier, subject to applicable vesting arrangements. In 2015, the Company cancelled and settled the SARs as part of the listing of its ordinary shares.
The Company repurchased all SARs from each of the participants assuming 100% vesting.
The calculation of the settlement amounts paid to the participants was based on the average of the opening price and the closing price of the shares of the first day of trading. Settlement of the SARs occurred fully in cash. After repurchase of the SARs, the Company terminated the SARs scheme and no further rights or obligations are currently outstanding vis-a-vis the participants. The schedule on the next page only shows the 2015 position.

| | Outstanding # of SARs | Strike price | Settlement price | Amount in €'000 |
|---|---|---|---|---|
| SARs granted in 2009 | 18,000 | 47.00 | 877.50 | 14,949 |
| SARs granted in 2011 | 23,683 | 90.50 | 877.50 | 18,639 |
| ***Total settlement price of the SARs*** | | | | **33,588** |
| Recognized on the balance sheet as per 31 December 2014 | | | | (586) |
| US social securities | | | | 214 |
| ***Recognized in Employee expenses in 2015*** | | | | **33,216** |
| Opening price first day of trading | | | 34.00 | |
| Closing price first day of trading | | | 36.20 | |
| Average | | | 35.10 | |
| Conversion (#share that can be transferred for one SAR) | | | 25 | |
| Settlement price used in the calculation | | | 877.5 | |

The expense has been recognized in the statement of comprehensive income in the line item Employee expenses.

## 27. *Operating leases*

### Leases as lessee

Non-cancellable operating lease minimum payments are payable as follows.

| OPERATIONAL LEASES | At 31 December 2016 | 2015 |
|---|---|---|
| Less than 1 year | 8,389 | 10,627 |
| Between 1 and 5 years | 17,692 | 6,045 |
| ***Total leases*** | **26,081** | **16,672** |

The Group leases all of its office facilities under operating leases.

## 28. *Other contingent liabilities*

### Claims

The Group is not involved in any significant and material legal procedures and/or claims and there are no other contingent liabilities.

### Fiscal unity

The Group constitutes a fiscal unity with its fully owned Dutch subsidiaries for Dutch income tax purposes. Moreover, Flow Traders B.V. forms part of a fiscal unity for VAT purposes, covering part of the Dutch Group. All companies in the fiscal unity are jointly and severally liable for the tax obligations of the fiscal unity.

## 29. *Related parties*

### General

The members of the Group's Supervisory Board and the Management Board are considered the persons responsible for managing and controlling the Group.

### Key management Employee compensation

Key management Employee compensation comprised the Management Board compensation over 2015 and 2016.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Fixed | Variable | Fixed | Variable |
| **Salaries** | | | | |
| Management Board | 213 | 4,003 | 284 | 6,086 |
| Supervisory Board | 325 | – | 163 | – |

**SARs**

As part of the IPO the company cancelled and settled the outstanding Stock Appreciation Rights.

| | 2016 | 2015 |
|---|---|---|
| | Variable | Variable |
| **Stock appreciation rights** | | |
| Management Board | – | 21,659 |

**Other related party transactions**

During 2015, the Company incurred € 2.6 million costs relating to the IPO. Part of the aforementioned IPO costs (€ 0.8 million) were charged to the selling shareholders.

## 30. *Group companies*

**SUBSIDIARIES**

| | Country of incorporation | Ownership interest 2016 | Ownership interest 2015 |
|---|---|---|---|
| Flow Traders Holding B.V. | Netherlands | 100% | 100% |
| Flow Traders U.S. B.V.[2] | Netherlands | 100% | 100% |
| Flow Traders B.V. | Netherlands | 100% | 100% |
| Global Connect B.V. | Netherlands | 100% | 100% |
| Flow Traders Technologies B.V. | Netherlands | 100% | 100% |
| Flow Traders Asia Pte. Ltd. | Singapore | 100% | 100% |
| Flow Traders Hong Kong Ltd[1] | Hong Kong | – | 100% |
| Flow Traders U.S. Holding LLC | United States of America | 100% | 100% |
| Flow Traders U.S. LLC | United States of America | 100% | 100% |
| Flow Traders U.S. Institutional Trading LLC | United States of America | 100% | 100% |
| Flow Traders Technologies SRL | Romania | 100% | 100% |

[1] *The Hong Kong entity has been liquidated in April 2016.*
[2] *As per 1 January 2017 Flow Traders U.S. B.V. has been merged with Flow Traders Holding B.V.*

**Significant restrictions**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which its subsidiaries operate. Please refer to the Capital Management section of this report for more information.

## 31. *Financial risk management*

### Overview

The Group is amongst others exposed to the following risks arising from financial instruments:

- credit risk;
- market risk;
- liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations, and can also arise from the settlement of off-exchange transactions.

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. These amounts significantly exceed expected loss in the event of counterparty default, as expected loss takes into account the likelihood of such an event and collateral or security. The maximum exposure to credit risk at the reporting date was as follows:

**CARRYING AMOUNT**

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | 2,736 | 1,925 |
| Trading receivables | 1,127,374 | 1,161,238 |
| Other receivables | 12,307 | 9,160 |

Credit risk related to transactions on exchanges is limited since these are guaranteed by the central counterparty or clearing house related to that exchange. Members of these clearing houses are required to deposit substantial amounts of cash, bonds or equities as guarantee for any failure to settlement of trading.

The Group manages credit risk through its Risk and Mid-Office department that provide specific guidelines, rules and procedures for identifying, measuring and reporting credit risk. Policies include amongst others:

- limits for individual product types;
- limits per counterparty;
- limits on the duration of the exposure;
- limits for settlement types;
- strict monitoring procedures for late settlements.

Creditworthiness of counterparties is continuously assessed and counterparty exposures are monitored on a intra-day basis.

During 2016, the Group observed no significant concentration of credit risks towards single counterparties and geographically there was no concentration of credit risk.

Based on the Group's counterparty credit risk monitoring the Group believes that no impairment is necessary in respect of trading and other receivables.

### Offsetting financial assets and financial liabilities

The disclosures set out in this paragraph include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, securities borrowing and securities lending agreements. Financial instruments such as loans and deposits are not disclosed in this paragraph unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right to offset recognized amounts for the parties to the agreement that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group has outsourced collateral management to its prime brokers. It can receive and grant collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

The Group receives and grants collateral in the form of cash and marketable securities in respect of derivatives (including swaps). Such collateral is subject to standard industry terms including, where appropriate, an ISDA Credit Support Annex. This means that securities received/granted as collateral can be pledged or sold during the term of the transaction, but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The following tables reconcile the 'Gross amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

| | | | | | At 31 December 2016 |
|---|---|---|---|---|---|
| | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not offset in the statement of financial position – Financial instrument | Net liquidation value at prime broker |
| **Types of financial assets** | | | | | |
| Long positions, cash market products and amounts receivable from clearing agent | 5,739,144 | - | 5,739,144 | (5,398,604) | 340,540 |
| **Types of financial liabilities** | | | | | |
| Short positions, cash market products amounts payable to clearing agents, and borrowings | (5,398,604) | - | 5,398,604 | (5,398,604) | - |

| | | | | | At 31 December 2015 |
|---|---|---|---|---|---|
| | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not offset in the statement of financial position – Financial instrument | Net liquidation value at prime broker |
| **Types of financial assets** | | | | | |
| Long positions, cash market products and amounts receivable from clearing agent | 4,554,003 | - | 4,554,003 | (4,216,288) | 337,715 |
| **Types of financial liabilities** | | | | | |
| Short positionscash market products and borrowings | (4,216,288) | - | 4,216,288 | (4,216,288) | - |

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- derivative assets and liabilities – fair value;
- trading assets and trading liabilities – fair value;
- cash positions– fair value;
- trading receivables - fair value;
- trading payables - fair value.

**Market risk**

The market risk for the Group relates to the risk of the value of a financial instrument fluctuating because of changes in factors including but not limited to such as interest rates, volatilities, currency rates, future dividend expectations and equity prices. The Risk and Mid-Office department monitors market risk exposure on a continuous basis (including intraday). Based on the limits set per product or the aggregated risk for the Group, limit breaches, if any, will trigger action from the Risk and Mid-Office department in order to reduce the risk.

In addition to the Group's Risk and Mid-Office department, the trading positions are also monitored daily. The applicable haircut and margins are computed by the Group's prime brokers. The Risk and Mid-Office department computes the haircut using internal models enabling intra-day monitoring. Limits are set on both capital- and credit usage.

Long and short trading positions include securities and derivatives such as: shares, American depositary receipts ('ADRs'), options, warrants, futures, forward rate agreements ('FRAs'), exchange-traded products ('ETP'). All traded financial instruments are liquid instruments. Therefore, the portfolio can always be liquidated within a short time frame and with limited costs.

The Group seeks to hedge its trading positions to minimize the risk for market movements and does not engage in long and/or short only positions. The direction of market movements, i.e. what the Group considers directional market risk, is not relevant for the Group because of this long/short trading strategy. Because of the manner in which the Group hedges foreign currency, interest rate risk and other price risk the directional market risk is close to zero. Therefore, no sensitivity analysis has been disclosed.

The overall market risk (including interest rate risk, credit risk, foreign currency risk and settlement risk) of the financial assets and liabilities held for trading are captured in the risk and margin requirements which the Group has to post at its prime brokers and clearing firms. The consolidated margin and haircut requirements over 2016 is shown in the Capital management paragraph. The haircut set out in the graph below reflects the mandatory capital requirement of the prime brokers. Although the positions are fully hedged, a minimum risk close to zero remains as a result of inefficiencies in the models of the prime brokers.

### Foreign currency risk

The Group is exposed to currency risk arising from trading positions denominated in a currency other than the respective functional currencies of Group entities, primarily the euro, but also United States dollars and Singapore dollars.

Foreign currency risk also arises on net investments in foreign operations, as well as net results of these foreign operations during the year.

The Group manages foreign currency risk through daily monitoring of the positions by currency. Generally, the Group seeks to hedge foreign currency exposures in currencies other than the functional currency.

The Group does not use financial instruments to hedge the translation risk related to net investments in foreign operations or net results of foreign operations.

### Interest rate risk

Interest rates will affect future profitability of the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of arranged interest rates of assets and liabilities. The Group has limits in place on interest rate gaps for stipulated periods. These limits ensure that interest rate risks are hedged. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

All financial instruments are held for trading purposes and are accounted for at fair value on the balance sheet. The Group is engaged in high velocity liquidity provision and therefore all positions held on the balance sheet are short term and, in addition, are all listed on exchanges and therefore liquid and tradable.

As mentioned in the paragraph trading payables, the Group has a credit facility available to facilitate the trading positions accounted for on the balance sheet. In order to match the liquidity and short holding period of these trading positions, the facility has an interest rate payable, which is floating. The Group runs a limited risk on the floating interest due to the fact that the interest is also embedded in the funding and financing of the long/short positions and in the EFP of the future.

### Other price risk

Equity price risk and commodity price risk arises from trading positions as well as the Group's investments in available for sale securities. In addition, for its option positions, the implied volatility of the underlying contract is an additional risk factor. Other factors to consider are time and dividend expectations.

The Group manages other price risks by defined limits in terms of individual positions per product and aggregate position per trading desk relating to the size of the exposure, concentrations, pricing and valuation parameters and natural hedging between these long and short positions.

As the Group is active in liquidity provision and does not speculate on directional moves in underlying values, the net delta positions of the portfolios should be close to zero.

In addition to daily internal monitoring measures, applicable haircut and margins are computed by the Group's prime brokers. The haircut analysis measures all positions, individual and correlated, and reflects the different risk components. The third party haircut calculation confirms the internal assessment that completes the Group's overview of the risks that it is exposed to on a daily and overnight basis. An overview of the overall market risk is presented under Market risk.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's cash position, as well as the other available credit lines with prime brokers, is monitored on a daily basis.

Maturity based on contractual undiscounted cash flows is as follows:

| | | | At 31 December 2016 |
|---|---|---|---|
| | Carrying amount | Contractual cash flow | 3 months or less |
| Payable for securities bought | 1,096,455 | 1,096,455 | 1,096,455 |
| Borrowings | 2,022,757 | 2,022,757 | 2,022,757 |
| ***Total trading payables*** | **3,119,212** | **3,119,212** | **3,119,212** |

| | | | At 31 December 2015 |
|---|---|---|---|
| | Carrying amount | Contractual cash flow | 3 months or less |
| Payable for securities bought | 1,098,248 | 1,098,248 | 1,098,248 |
| Borrowings | 1,085,046 | 1,085,046 | 1,085,046 |
| ***Total trading payables*** | **2,183,294** | **2,183,294** | **2,183,294** |

**Maturity analysis of financial assets and liabilities**

The following table shows an analysis of the assets and liabilities according to when they are expected to be recovered or settled.

At 31 December 2016

| | Total | Receivable/ payable on demand | Within 3 months | 3 months to 1 year | >1 year |
|---|---|---|---|---|---|
| Cash and cash equivalents | 2,736 | 2,736 | – | – | – |
| Financial assets held for trading | 4,591,573 | 4,591,573 | – | – | – |
| Trading receivables | 1,127,374 | 1,127,374 | – | – | – |
| Other receivables | 12,307 | – | 9,107 | 2,394 | 806 |
| Available for sale investments | 4,640 | – | – | – | 4,640 |
| Investments in associates | 1,343 | – | – | – | 1,343 |
| Current tax assets | 742 | – | 742 | – | – |
| Deferred tax assets | 5,592 | – | – | – | 5,592 |
| ***Non-derivative financial assets*** | **5,746,307** | **5,721,683** | **9,849** | **2,394** | **12,381** |
| | | | | | |
| Financial liabilities held for trading | 2,279,392 | 2,279,392 | – | – | – |
| Trading payables | 3,119,212 | 3,119,212 | – | – | – |
| Liabilities at fair value | 3,281 | – | – | – | 3,281 |
| Bonus payables | 100,165 | – | 69,148 | – | 31,017 |
| Long term loans/Lease commitments | 1,767 | – | – | 946 | 821 |
| Other payables | 15,764 | – | 15,764 | – | – |
| ***Non-derivative financial liabilities*** | **5,519,491** | **5,398,604** | **84,912** | **946** | **35,119** |
| | | | | | |
| Derivative assets | 20,197 | 20,197 | – | – | – |
| ***Derivative assets*** | **20,197** | **20,197** | | | |

At 31 December 2015

| | Total | Receivable/ payable on demand | Within 3 months | 3 months to 1 year | >1 year |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,925 | 1,925 | – | – | – |
| Financial assets held for trading | 2,531,241 | 2,531,241 | – | – | – |
| Trading receivables | 1,161,238 | 1,161,238 | – | – | – |
| Other receivables | 9,160 | – | 9,160 | – | – |
| Available for sale investments | 3,364 | – | – | – | 3,364 |
| Investments in associates | 808 | – | – | – | 808 |
| Current tax assets | 2,010 | 2,010 | – | – | – |
| Deferred tax assets | 4,106 | – | – | – | 4,106 |
| ***Non-derivative financial assets*** | **3,713,852** | **3,696,414** | **9,160** | **–** | **8,278** |
| | | | | | |
| Financial liabilities held for trading | 1,604,767 | 1,604,767 | – | – | – |
| Trading payables | 2,183,294 | 2,183,294 | – | – | – |
| Liabilties at fair value | 2,609 | – | – | – | 2,609 |
| Bonus payables | 107,379 | – | 64,103 | – | 43,276 |
| Long term loans/Lease commitments | 1,962 | – | – | 675 | 1,287 |
| Other payables | 24,668 | – | 24,668 | – | – |
| ***Non-derivative financial liabilities*** | **3,922,070** | **3,788,061** | **88,771** | **675** | **47,172** |
| | | | | | |
| Mark to market derivative assets | 859,785 | 859,785 | – | – | – |
| ***Derivative assets*** | **859,785** | **859,785** | **–** | **–** | **–** |
| | | | | | |
| Mark to market derivative liabilities | 428,227 | 428,227 | – | – | – |
| ***Derivative liabilities*** | **428,227** | **428,227** | **–** | **–** | **–** |

**Liquidity and capital resources**

Beside equity, the principal source of funds has been liquidity provided by the prime brokers through uncommitted credit lines and margin financing, as well as cash generated from our operating activities. As of 31 December 2016, the Group held €2.7 million in cash and cash equivalents compared to €1.9 million as of 31 December 2015. These balances are maintained primarily to support operating activities, including ensuring that the Group has sufficient short-term access to liquidity, and capital expenditures.

The Group maintains a highly liquid balance sheet, with a large portion of its total assets consisting of cash, highly liquid marketable securities and short-term trading receivables (arising from securities transactions).

The Group actively manages its liquidity on an intra-day basis and maintains significant portfolio financing facilities with the prime brokers in order to facilitate trading. These facilities are secured by cash and cash equivalents, as well as all financial assets in accounts held at the respective prime brokers. The Group has no outstanding borrowings other than the portfolio financing facilities with prime brokers.

**Capital management**

The Management Board's policy is to maintain a strong capital base well above the required margins in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Management Board monitors the return on its capital as well as the level of dividends to its shareholders.

The Group is prudentially supervised by the Dutch Central Bank (*De Nederlandsche Bank*, DNB). In addition, as its Dutch trading subsidiary is a registered investment firm dealing on own account in its capacity of market maker, the Group is subject to the rules and regulations of the Dutch Financial Services Act (*Wet op het Financieel Toezicht*) and, as a member of various venues, the Group is also subject to rules and regulations of the exchanges.

If a firm fails to maintain the required capital, it may be subject to suspension or revocation or registration by the applicable regulatory agency, and suspension or expulsion by these regulators could ultimately lead to the Group's liquidation. Additionally, these rules may have the effect of prohibiting a proprietary trading firm from distributing or withdrawing capital and requiring prior notice to and approval from DNB for certain capital withdrawals.

The available capital in the trading companies is monitored on a daily basis to ensure that requirements are met at all times and sufficient capital is available to support the Group's strategy.

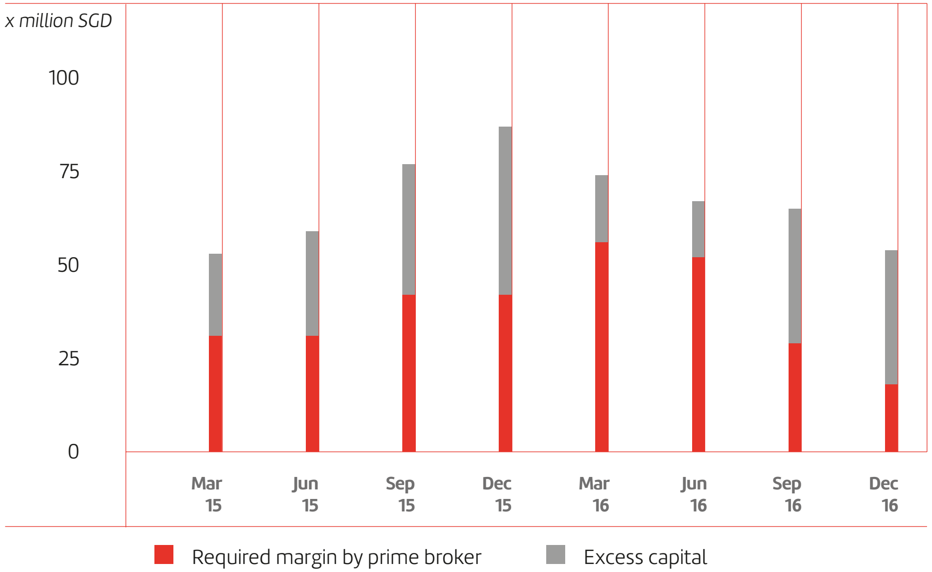
During 2016, the Group's capital was above the regulatory minimum requirements.

There were no changes in the Group's approach to capital management during the year.

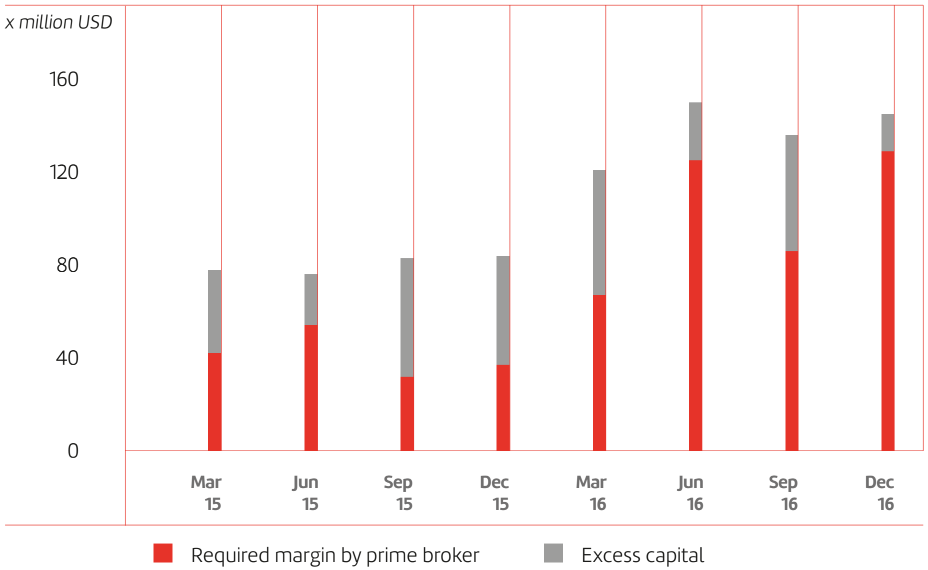
**Capital requirements**

The Group's regulators and prime brokers require certain levels of capital, which are managed by the Group in order to maintain net liquidity (which represents the value of our trading positions, principally long and short positions in equity securities, plus cash and cash equivalents) in excess of our various capital requirements at all times.

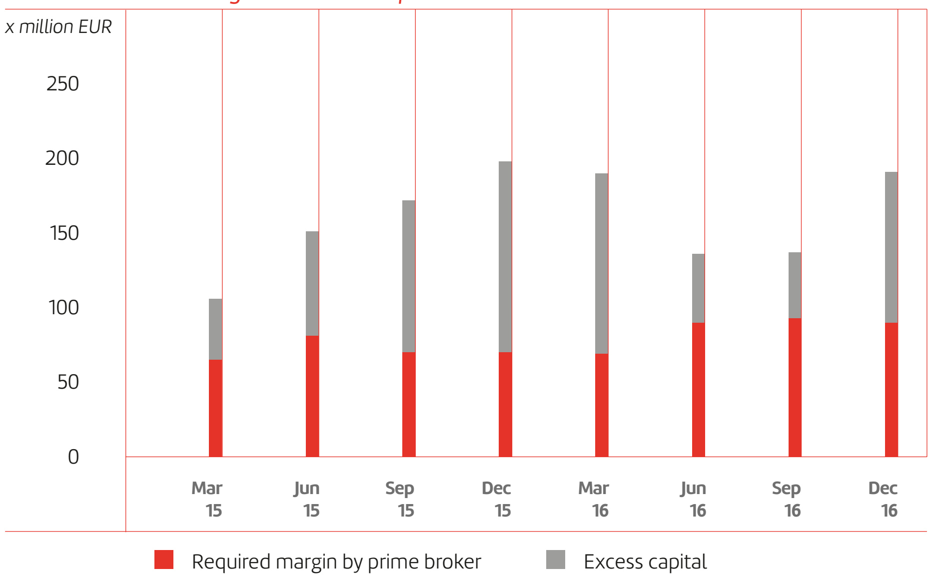
*Flow Traders Asia Pte – Required margin and excess capital 2015 – 2016*



*Flow Traders U.S. LLC – Margin and excess capital 2015 – 2016*




*Flow Traders B.V. – Margin and excess capital 2015 – 2016*




**Prime broker capital requirements**

The prime brokers require the Group to maintain certain minimum capital levels. Prime brokers use different internal systems to calculate required capital amounts (e.g., the so-called 'internal haircut model' and the so-called 'margin based approach model', both intending to ensure sufficient levels of risk allowances) and have different limits structure, pre-funding possibilities and cut-off times for wiring capital. The aggregate capital that is required to maintain by the prime brokers is significantly in excess of the actual risk exposure, principally due to (i) the offsetting legs of a transaction sometimes being cleared through different prime brokers and therefore each leg requiring a margin to be posted separately and therefore no offsets are applicable across prime brokers, irrespective of the overall risk exposure to our business and (ii) margin requirements of its prime brokers being affected by the sophistication of their models (which might not correspond to our models) and the regulatory requirements applicable to them.

The following table sets forth our net liquidity, capital required to be posted by our prime brokers and our excess liquidity as of the dates indicated:

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Net liquidity at clearings/prime brokers | 340,541 | 336,845 |
| Cash at banks | 2,736 | 1,925 |
| **Net trading capital** | **343,277** | **338,770** |
| Prime broker margin to be posted | (233,210) | (113,770) |
| ***Prime broker excess liquidity*** | **110,067** | **225,000** |

As shown in the graphs above under Market risks, during 2016 all prime broker minimum capital level requirements are met for all the trading subsidiaries.

## Regulatory capital requirements

The Company and our subsidiary Flow Traders B.V. are subject to separate regulatory capital requirements in the Netherlands and our subsidiary Flow Traders U.S. LLC is subject to regulatory capital requirements in the United States. Flow Traders Asia Pte. Ltd. is exempt from regulatory capital requirements.

Failure to comply with regulatory capital requirements could result in sanctions, including citations, fines, limits to our trading and revocation of a regulatory license.

### Dutch regulatory capital requirements

The regulatory capital requirement prescribed by the Dutch Central Bank in respect of Flow Traders B.V. and the Company is deemed to be satisfied if the regulatory capital of Flow Traders B.V. and the Company is at least equal to their last reviewed or audited equity by our external auditor. The following table sets forth regulatory capital, regulatory capital requirements and excess regulatory capital for Flow Traders B.V. and our Group as reported in regulatory filings as of the dates indicated:

| FLOW TRADERS B.V. | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Regulatory capital | 154,075 | 151,700 |
| Regulatory capital requirements | (98,300) | (67,800) |
| ***Excess regulatory capital*** | **55,775** | **83,900** |
| **Group** | | |
| Regulatory capital | 270,092 | 246,548 |
| Regulatory capital requirements | (168,200) | (94,000) |
| ***Excess regulatory capital*** | **101,892** | **152,548** |

### U.S. regulatory capital requirements

The SEC and FINRA impose rules on Flow Traders U.S. LLC, as a registered U.S. broker-dealer, that require notification when regulatory capital levels fall below certain pre-defined criteria. These rules also dictate the ratio of debt-to-equity in Flow Traders U.S. LLC's regulatory capital composition and constrain its ability to expand its business under certain circumstances. These regulations also prohibit repaying subordinated borrowings, paying cash dividends, making loans to the firm's parent, affiliates or employees, or otherwise entering into transactions which would result in a reduction of its total net capital to less than 120% of its required minimum capital. Moreover, Flow Traders U.S. LLC is required to notify the SEC, FINRA and other regulators prior to repaying subordinated borrowings, paying dividends and making loans to its parent, affiliates or employees, or otherwise entering into transactions, which, if executed, would result in a reduction of 30% or more of its excess net capital (net capital less minimum requirement).

The following table sets forth regulatory capital, regulatory capital requirements and excess regulatory capital for Flow Traders U.S. LLC as reported in its regulatory filings as of the date indicated:

| FLOW TRADERS U.S. LLC | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Regulatory capital | 110,900 | 74,900 |
| Regulatory capital requirements | (69,900) | (26,200) |
| ***Excess regulatory capital*** | **41,000** | **48,700** |

During 2016 we have allocated additional capital to US LLC as we started trading more capital inefficiency assets classes such as fixed income.

### Singapore regulatory capital requirements

The Singapore trading subsidiary is exempt from regulatory capital requirements. Therefore, its entire equity can be interpreted as excess regulatory capital. Such regulatory excess can be used for other purposes within the Group, including covering capital requirements (prime broker or regulatory) in other trading subsidiaries.

### Subsequent events

No material subsequent events have occurred since 31 December 2016 that require recognition or disclosure in this year's financial statements.

**PARENT COMPANY BALANCE SHEET** *In thousands of euro*

| | Note | For the year ended 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Participating interest in group companies | 32 | 290,735 | 291,201 |
| Other investments | | 803 | 762 |
| Other receivables | | 73 | 68 |
| Cash | | 5 | 14 |
| ***Total assets*** | | **291,616** | **292,044** |
| **Liabilities** | | | |
| Liabilities to related parties | | 11,861 | 30,539 |
| Current tax liabilities | 33 | 3,961 | 11,504 |
| Other liabilities | 34 | 5,703 | 3,454 |
| ***Total liabilities*** | | **21,525** | **45,497** |
| **Equity** | | | |
| Share capital | 35 | 4,653 | 4,653 |
| Share premium | 35 | 152,456 | 150,826 |
| Retained earnings | 35 | 93,887 | 74,024 |
| Currency translation reserve | 35 | 19,533 | 17,710 |
| Fair value reserve | 35 | (438) | (666) |
| ***Total equity*** | | **270,091** | **246,547** |
| ***Total equity and liabilities*** | | **291,616** | **292,044** |

## PARENT COMPANY INCOME STATEMENT

| | Note | For the year ended 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| Employee expenses | 36 | 4,594 | 3,305 |
| Other expenses | 37 | 671 | 1,534 |
| **Operational expenses** | | **5,265** | **4,839** |
| **Operating result** | | **(5,265)** | **(4,839)** |
| Share in result from participating interests, after tax | 32 | 96,219 | 99,634 |
| Result/ (impairment) of equity-accounted investments | | 42 | 696 |
| **Profit before tax** | | **90,996** | **95,491** |
| Tax expenses | | 940 | 1,800 |
| **Net result** | | **91,936** | **97,291** |

# Notes to the parent company financial statements

*All amounts in thousands of euros, unless stated otherwise.*

### *General*

With reference to the income statement of the parent Company, the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code was applied.

### *Principles for the measurement of assets and liabilities and the determination of the result*

In setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its parent Company financial statements, the Group applies the option provided in section 2:362 (8) of the Netherlands Civil Code. The principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the parent company financial statements are the same as those applied for the consolidated IFRS-EU financial statements. Participating interests over which the Company has significant influence, are measured at equity value. Please see notes to consolidated statements chapter 1 to 4 for a description of the Group's IFRS-EU principles.

The profit from participating interests consists of the Group's share in the results of these participating interests. Results on transactions, comparing the transfer of assets and liabilities between (i) the Group and its participating interests on (ii) between participating interests themselves, are not recognized.

## 32. *Financial fixed assets*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Participating interest in group companies and associates | 290,735 | 291,201 |
| ***Total financial fixed assets*** | **290,735** | **291,201** |

The movements of the financial fixed assets can be shown as follows:

| | **2016** | **2015** |
|---|---|---|
| **Balance at 1 January** | **291,201** | **184,238** |
| Changes: | | |
| ■ exchange rate differences | 1,879 | 8,110 |
| ■ fair value reserve | 228 | (781) |
| ■ share in result of participating interests | 96,219 | 99,634 |
| ■ dividends declared | (98,792) | - |
| ***Balance at 31 December*** | **290,735** | **291,201** |

## 33. *Current tax liabilities*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Corporate income tax | 3,961 | 11,504 |
| ***Total current tax liabilities*** | **3,961** | **11,504** |

## 34. *Other liabilities*

| | At 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Long term bonus payable | 2,531 | 1,522 |
| **Subtotal non current liabilities** | **2,531** | **1,522** |
| | | |
| Wages and bonuses payables | 2,843 | 1,521 |
| Wages tax payable | 23 | 19 |
| Other current liabilities | 306 | 393 |
| **Subtotal current liabilities** | **3,172** | **1,933** |
| ***Total other liabilities*** | **5,703** | **3,455** |

## 35. *Equity*

| | Share capital | Share premium | Currency translation reserve | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **4,653** | **150,826** | **17,710** | **(666)** | **74,024** | **246,547** |
| Profit | – | – | – | – | 91,936 | 91,936 |
| Total other comprehensive income | – | – | 1,823 | 228 | – | 2,051 |
| **Total comprehensive income for the period** | **–** | **–** | **1,823** | **228** | **91,936** | **93,987** |
| Transactions with owners of the Company | | | | | | |
| Reclass from translation reserve | – | – | (56) | – | 56 | – |
| Additional share premium | – | 1,630 | – | – | – | 1,630 |
| Dividends | – | – | – | – | (72,129) | (72,129) |
| **Total transactions with owners of the company** | **–** | **1,630** | **(56)** | **–** | **(72,073)** | **(70,499)** |
| ***Balance at 31 December 2016*** | **4,653** | **152,456** | **19,477** | **(438)** | **93,887** | **270,035** |

## 36. *Employee expenses*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Wages and salaries | 554 | 252 |
| Bonuses | 4,003 | 3,043 |
| Social security charges | 28 | 8 |
| Recruitment and other employment costs | 9 | 2 |
| ***Employee expenses*** | **4,594** | **3,305** |

## 37. *Other expenses*

| | At 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Advisors and assurance | 160 | 157 |
| Regulatory costs | 123 | 37 |
| Shareholder meeting costs | 335 | 292 |
| IPO expenses | – | 945 |
| Various expenses | 53 | 103 |
| ***Other expenses*** | **671** | **1,534** |

## 38. *Off-balance sheet commitments*

The Company has no off-balance sheet commitments.

## 39. *Claims*

The Company is not involved in any significant legal procedures and/or claims.

There are no other contingent liabilities.

## 40. *Auditor fees*

With reference to Section 2:382a (1) and (2) of the Netherlands Civil Code, the following fees (including VAT) for the financial year have been charged by Ernst & Young Accountants LLP and its member firms and affiliates to the Group, its subsidiaries and other consolidated entities:

**FEES OF THE AUDITOR** *In thousands of euro*

| | Ernst & Young Accountants LLP | Other EY member firms and affiliates | Total EY |
|---|---|---|---|
| | | | 2016 |
| Statutory audit of annual accounts | 190 | 25 | 215 |
| Other assurance services | - | - | - |
| Other non-audit services | - | - | - |
| ***Total auditor fees 2016*** | **190** | **25** | **215** |

The 2015 audit fees were charged by KPMG Accountants N.V. and it member firms and affiliates to the Group.

| | KPMG Accountants N.V. | Other KPMG member firms and affiliates | Total KPMG |
|---|---|---|---|
| | | | 2015 |
| Statutory audit of annual accounts | 219 | 36 | 255 |
| Other assurance services | 279 | 21 | 300 |
| Other non-audit services | - | 177 | 177 |
| ***Total auditor fees 2015*** | **498** | **234** | **732** |

Amsterdam, 16 March 2017

The Management Board:

D.D.M. Dijkstra S.A. Rietberg M.C. Jongmans

The Supervisory Board:

E.D. Drok J.T.A.G. van Kuijk O.J. Bisserier R. Ferscha R.H.C. Hodenius J.K.J. Sikkens

# Other information

### *Provisions in the Articles of Association governing the appropriation of profit*

The provisions in the articles of association governing the appropriation of profit read as follows:

1. The Management Board may decide, with the approval of the Supervisory Board, that the profits realized during a financial year will fully or partially be appropriated to increase and/or from reserves. The profits remaining after application to or from reserves shall be put at the disposal of the general meeting at the proposal of the Management Board, with the approval of the Supervisory Board. A proposal to pay dividends shall be dealt with as a separate agenda item at the general meeting. Distributions from the company's distributable reserves are made pursuant to a resolution of the general meeting at the proposal of the Management Board, with the approval of the Supervisory Board. Provided it appears from an interim statement of assets signed by the Management Board that the requirements concerning the position of the company's assets has been fulfilled, the Management Board may, with the approval of the Supervisory Board, make one or more interim distributions to the holders of shares. The Management Board may decide, with the approval of the Supervisory Board, that a distribution on shares shall not take place as a cash payment but as a payment in shares, or decide that holders of shares shall have the option to receive a distribution as a cash payment and/or as a payment in shares, out of the profit and/or at the expense of reserves, provided that the Management Board is designated by the general meeting. With the approval of the Supervisory Board, the Management Board shall determine the conditions applicable to the aforementioned choices.
2. The company's policy on reserves and dividends shall be determined and can be amended by the Management Board, with the approval of the Supervisory Board. The adoption and thereafter each amendment of the policy on reserves and dividends shall be discussed and accounted for at the general meeting under a separate agenda item.
3. Distributions can only be made up to the amount of the distributable part of the shareholders' equity.
4. Dividends and other distributions will be made payable pursuant to a resolution of the Management Board within four weeks after adoption, unless the Management Board sets another date for payment.
5. The claim of a shareholder to receive any distributions shall lapse within five years after they have become due for payment.
6. For all dividends and other distributions in respect of shares included in the Statutory Giro System the company will be discharged from all obligations towards the relevant shareholders by placing those dividends or other distributions at the disposal of, or in accordance with the regulation of, Euroclear Netherlands.
7. In calculating the amount of any distribution on shares, shares held by the Company shall be disregarded.

### *Subsequent events*

No material subsequent events have occurred since 31 December 2016 that require recognition or disclosure in this year's financial statements.

## Independent auditor's report

To: the shareholders and supervisory board of Flow Traders N.V.

## Report on the audit of the financial statements 2016 included in the annual report

***Our opinion***

We have audited the financial statements 2016 of Flow Traders N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the parent company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Flow Traders N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying parent company financial statements give a true and fair view of the financial position of Flow Traders N.V. as at 31 December 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016
- The following statements for 2016: the consolidated statements of profit and loss, other comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The parent company financial statements comprise:

- The parent company balance sheet as at 31 December 2016
- The parent company income statement for 2016
- The notes comprising a summary of the accounting policies and other explanatory information

***Basis for our opinion***

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Flow Traders N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

| MATERIALITY | |
|---|---|
| Materiality | € 5 million |
| Benchmark applied | 5% of pre-tax income (rounded) |
| Explanation | We applied pre-tax income as this benchmark is an important metric for the financial performance of Flow Traders N.V. |

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 250 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

**Scope of the group audit**

Flow Traders N.V. Amsterdam is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Flow Traders N.V.

Our group audit mainly focused on significant group entities located in Singapore and the United States, hence those locations where trading activities are being performed. We have:

- Performed audit procedures ourselves at group entities Flow Traders N.V. and Flow Traders B.V.
- Used the work of other auditors when auditing entities Flow Traders Asia Pte. LTD and Flow Traders U.S. LLC
- Performed specific audit procedures at other group entities

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

**Our key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our audit approach |
|---|---|
| **Fair value measurement of financial instruments (note 7 of the financial statements)** | |
| Flow Traders' fair value measurement of financial instruments is based on internally determined theoretical prices, which are also used for quoting purposes. As such, valuation can be different than the closing prices at the various stock exchanges, for example due to market illiquidity and the opening hours of the stock exchanges.<br><br>The fair values recorded inherently are estimates and could be biased. Therefore, we have identified the valuation of financial instruments as a significant risk within our audit. | We obtained an understanding of the valuation process, including verifications done by the risk and middle office department. We performed sample testing on the valuation of individual positions by comparing prices and underlying information used for valuation to external sources. We evaluated the fair value hierarchy of financial instruments and developments therein since prior year. Furthermore, we inspected the financial statements for compliance and consistency with IFRS 7 on disclosure requirements for financial instruments. |

| Risk | Our audit approach |
|---|---|
| **Revenue recognition (note 9 of the financial statements)** | |
| Revenue recognition is perceived as embedding a higher inherent risk for our financial statements' audit. Furthermore, net trading income at Flow Traders is identified as a significant account and may include unusual or complex revenue transactions. | We inspected Flow Traders' policy related to revenue recognition. We tested the design and existence on the trading, risk and middle Office and finance processes. We verified revenues and cash positions with external party statements.<br>We performed substantive testing over significant, unusual and/or one-off transactions. Finally, we performed procedures in relation to period end cut-off testing. |

| Risk | Our audit approach |
|---|---|
| **Reliability and continuity of IT (section managing operational and IT risk)** | |
| With Flow Traders' trading activities taking place through its proprietary technology platform and in a highly automated environment, Flow Traders is highly dependent on the reliability and continuity of its IT for executing its strategy.<br>In combination with our legally required procedures as external auditor of Flow Traders, we have identified reliability and continuity of IT as key audit matter. | We have obtained an understanding of the IT infrastructure. We evaluated the IT governance structure and IT monitoring controls. We walked through and tested the design and operating effectiveness of IT general controls and significant IT application controls relevant for the financial statements. Furthermore, we evaluated progress of various IT initiatives within Flow Traders and inspected IT testing performed by Flow Traders and/or external parties. |

## Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management board's report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### *Engagement*

We were engaged by the supervisory board as auditor of Flow Traders N.V. on 19 May 2016, as of the audit for the year 2016 and have operated as statutory auditor since that date.

### *Description of responsibilities for the financial statements*

**Responsibilities of management and the supervisory board for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

**Our responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
  - Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

The Hague, 16 March 2017

Ernst & Young Accountants LLP
Signed by T. de Kuijper

This document contains “forward-looking statements” which relate to, without limitation, our plans, objectives, strategies, future operational performance, and anticipated developments in the industry in which we operate. These forward-looking statements are characterized by words such as “anticipate”, “estimate”, “believe”, “intend”, “plan”, “predict”, “may”, “will”, “would”, “should”, “continue”, “expect” and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or our actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such factors include, among other things, reduced levels of overall trading volume and lower margins; dependence upon prime brokers, ETP issuers, trading counterparties, CCPs and custodians; losing access to an important exchange or other trading venue; occurrence of a systemic market event; incurrence of trading losses; failures or disruption of our trading platform or our or third-party technical infrastructure; risks associated with operational elements of our business and trading generally; ineffective risk management systems, processes and strategies; intense competition in our business; dependence on continued access to sources of liquidity; capacity constraints of computer and communications systems; dependence on third-party software, infrastructure or availability of certain software systems; damage to our reputation and the reputation of our industry; loss of key staff or failure to attract and retain other highly skilled professionals; changes to applicable regulatory requirements; compliance with applicable laws and regulatory requirements, including those specific to our industry; enhanced media and regulatory attention and its impact upon public perception of us or of companies in our industry; and other risks.

The forward-looking statements contained in this document are based on assumptions, beliefs and expectations that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given the risks and uncertainties associated with forward-looking statements, you are cautioned not to place undue reliance on such forward-looking statements.

Such forward-looking statements speak only as of the date on which they are made. Accordingly, other than as required by applicable law or the rules of the stock exchange on which our securities are listed, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. Any forward-looking statements should not be regarded as a representation or warranty by us or any other person with respect to the achievement of the results set out in such statements or that the underlying assumptions used will in fact be the case. If any of these risks and uncertainties materialize, or if any of our underlying assumptions prove to be incorrect, our actual results of operations or financial condition could differ materially from that described herein as anticipated, believed, estimated or expected.

Statements regarding the market, industry and trends, including ETP Assets under Management in certain markets, ETP value traded in certain markets and Flow Traders’ competitive position are based on outside data and sources.

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