2022 EXTRAORDINARY GENERAL MEETING – SUBMITTED QUESTIONS

VEB (unofficial translation from Dutch into English)

1. The official reading is that the Proposed Update to the Holding Structure is deemed necessary because capital requirements at the holding level would be too restrictive.

   a. Has Flow Traders contributed to this policy, and if so, how?

   The European legislative process on the investment firm directive and regulation (IFD/IFR) started with an EC proposal in 2017 and ended with level 2 implementation regulation published in June 2021. Flow Traders has been a member of the Dutch Association of Proprietary Trading (APT) and FIA EPTA, the European Proprietary Trading Association, for a number of years. In that context, Flow Traders has worked closely with these associations in engaging with national and EU institutions on the development of a suitable prudential regime for investment firms, which from time to time also extended to providing input on specific paragraphs and articles in draft legislation and regulation.

   In discussions with the trade association and legislators, recurring themes included the creation of a level playing field between EU and non-EU (notably US) markets and persisting differences, as well as the scope of applicability and impact of the legislation with respect to entities both in- and outside the EU. These themes were the subject of various consultation responses and were furthermore discussed during meetings with co-legislators, policy advisors and competent national authorities and ministries, as well as at public conferences and round tables.

   b. Has been considered what the reason was that parties like Flow Traders apparently have not been more convincing in their criticism on these capital requirements at holding level vis-à-vis the EU legislator?

   The aim of introducing the IFR/IFD prudential regime for investment firms that are not considered as systemic was to provide a proportionate regime for investment firms that were previously subject to the same (CRR/CRD) regime as banks. This is because they do not have clients nor hold third party funds and by definition pose different risks to the financial system and its stability in comparison to other financial institutions (e.g. banks or insurance companies).

   Naturally, as a significant participant in the European financial markets, Flow Traders regularly engages in any discussions and preparatory processes preceding the adoption of any relevant legislation or regulation as highlighted above. However, Flow Traders is not aware of the precise rationale of the respective European Union bodies when they opted to continue to impose capital requirements at the consolidated group level.

   c. Could there be reasons from a prudential viewpoint as a result of which these requirements could be justified?

   The fact that the IFR/IFD imposes prudential requirements on European regulated investment firms at the solo level is understandable given the risk-based approach of the respective European Union legislative and regulatory institutions. Requirements imposed at the level of the holding of the group are intended to cover potential additional risks that stem from the investment firm being part of a group with a (material) European Union presence and related possible systemic (contagion) risks.

   Flow Traders deems that it is a conscious choice by the regulators to address these add-on risks in this way, although of course different measures could also have been taken to *safeguard these interests. The current legislative framework and associated interpretations have placed European Union-domiciled investment firms dealing on their own account at a disadvantage compared to their non-European Union-domiciled peers. This is because these peers have adopted a structure whereby they operate within the European Union via a subsidiary and accordingly the additional group consolidated requirements do not apply. It is fair to say that in general the European Union has adopted a more prudent regulatory approach towards various financial market participants when compared to other major comparable regulatory jurisdictions.*

2. Flow Traders has indicated that it intends to update its holding structure because of – in short – capital requirements. In this context, the requirements based on the Investment Firm Directive (IFD) and Investment Firm Regulation (IFR) need to be considered. Does Flow Traders believe that it has correctly informed its shareholders about the impact of these restrictions?

   We appreciate your reflection on the statements below from the 2019 and 2020 annual reports.

   'We followed closely the adoption of IFR and IFD and have now moved into the implementation phase ahead of the new regime coming into force in June 2021. Based on our initial analysis, we expect that it will have a neutral to slightly positive impact on our business.' **Annual Report Flow Traders 2019, p.6**

   'The new European Union IFR/IFD regulations will come into force in June 2021. We concluded in 2020 that because the new regulations are more tailored to Flow Traders' specific risk profile, our capital requirements will be markedly lower. It is envisaged that this capital relief will be partially offset by growth in business activities.' **Annual Report Flow Traders 2020, p.8.**

   The above statements relate to the changes that resulted from the implementation of IFR/IFD and ensuing transition from the CRR/CRD regime which previously applied to investment firms. Indeed, the introduction of the IFR/IFD regime was intended to create a prudential regime more proportionate to the different risk profiles of investment firms compared to other financial institutions. In essence, IFR/IFD seeks to reflect the lower risk profile of investment firms compared to e.g. banks or insurance companies.

   Therefore, the disclosure contained within Flow Traders' annual reports as cited above is fully accurate as these statements specifically relate to the relationship between the previous CRR/CRD regime and the more proportionate IFR/IFD regime.

   By way of background, a comprehensive strategic review was undertaken in early 2022 which clearly occurred after the specific disclosures cited above. This strategic review and the strategic ambition that resulted from it (as outlined in the Capital Markets Update held in July 2022) naturally informed the ongoing assessment of Flow Traders legal and regulatory structure and the proposal to update the holding structure.

3. Can Flow Traders provide an overview of the jurisdictions that were considered and indicate why these were not considered suitable?

   Flow Traders assessed several jurisdictions based on various criteria, including whether the jurisdiction was overall an appropriate strategic fit, whether the Proposed Update to the Holding Structure to that jurisdiction was possible from a corporate law perspective and which impact it could have on regulatory and tax aspects, and whether key governance elements could be retained. Other jurisdictions that Flow Traders considered included, for example, the United States of America, the United Kingdom, Singapore and Hong Kong.

After a comprehensive and thorough assessment, Flow Traders ultimately chose Bermuda as the most suitable legal jurisdiction as it meets Flow Traders' objectives while allowing Flow Traders to maintain key elements of its corporate governance structure and Dutch tax residency. The other jurisdictions that were assessed did not meet Flow Traders' overall objectives.

4. Has Flow Traders considered the consequences of the Proposed Update to the Holding Structure on the relationship with the (financial) parties in the ecosystem?

   Yes, Flow Traders did prepare an extensive stakeholder assessment and this fully took into account the relationship with other (financial) parties in the ecosystem. Flow Traders incorporated more broadly the likely impact of the Proposed Update to the Holding Structure on its stakeholders into its decision.

5. In the Additional Q&A and update to the reflection period that were published on 4 November 2022 and 14 November 2022 respectively, Flow Traders indicated that it will no longer report as if 'the Dutch Corporate Governance [Code] applies to us'.

   a. What are the most important changes in reporting?

      The Dutch Corporate Governance Code is designed to apply to Dutch companies, wherever listed and not to companies listed at a Dutch stock exchange, wherever incorporated. Consequently, Flow traders Ltd will not be required to apply the Dutch Corporate Governance Code. The Dutch Corporate Governance Code will nevertheless continue to be an important point of reference for Flow Traders. This also applies with respect to the provisions of the Dutch Corporate Governance Code that require us to provide certain disclosures, which we will consider in combination with other reporting requirements that will (continue) to apply to us.

      Flow Traders will, however, not report on compliance with the Dutch Corporate Governance Code after the Proposed Update to the Holding Structure.

   b. Why has Flow Traders not decided to continue reporting under the Dutch Corporate Governance Code and thereby give content to its 'intention to continue our current governance practice'?

      We will not report on the compliance with the Dutch Corporate Governance Code as this would provide the incorrect impressions that we are not a Bermuda law governed entity subject to a Bermuda governance framework and that the Dutch Corporate Governance Code applies in instances such as this.

Timing

6. The IFR and IFD regulations have been in force since June 2021 but include a transitional period of a number of years. Has Flow Traders considered to take more time to look into a suitable jurisdiction?

   Flow Traders conducted a thorough legal and regulatory structure review during the first half of 2022 alongside a broader strategic review. The outcome of this detailed work led to Bermuda being selected as the most suitable jurisdiction which is aligned with the overall strategic growth agenda. Considering its strategic ambition, Flow Traders believes this is the right moment for the Proposed Update to the Holding Structure to be undertaken.

7. On a number of occasions, Flow Traders has indicated that the available capital exceeds the required capital. How does this relate to the urgency of the Proposed Update to the Holding Structure?

Flow Traders believes the Proposed Update to the Holding Structure will ensure that its legal structure is 'future proofed' to provide flexibility to execute its strategic growth agenda. Accordingly, Flow Traders expects that the Proposed Update to the Holding structure will provide this and ensure strategic optionality from both an organic and inorganic standpoint.

8. The VEB has taken note of the unexpected, premature, departure of CEO Dennis Dijkstra and has understanding for his decision not to seek reappointment. Is his departure in any way related to the Proposed Update to the Holding Structure and if so, in what way?

   No - these events are entirely unconnected.

9. After the announcement of the Proposed Update to the Holding Structure, Flow Traders made a number of commitments on essential elements of corporate governance.

   a. Why has the communication process been so premature, inaccurate, and incomplete?

   b. Why could Flow Traders not have waited with the ad-hoc announcement until the content of the announcement could have been performed more professionally and complete?

   The Proposed Update to the Holding Structure is the result of a comprehensive review that took place since the start this year. The announcement and underlying materials were prepared diligently and to the high standard as expected by Flow Traders' stakeholders.

   Flow Traders always adopts a transparent approach to engagement with stakeholders and accordingly our ambition remains to have a strong ongoing dialogue with our shareholders and other stakeholders. Therefore, we have carefully reviewed the constructive and valuable feedback we have received after the announcement of the Proposed Update to the Holding Structure. On the basis of this feedback and after thorough consideration, we have provided additional information and incorporated certain suggestions where we considered doing so, in the best interest of the company and its stakeholders. Moreover, given regulatory restrictions, it would simply not have been possible to conduct a stakeholder consultation prior to the announcement of the Proposed Update to Holding Structure on 21 October 2022.

   Therefore, we strongly disagree with VEB's characterization of this process.

EUMEDION

10. According to the first Q&A in relation to the transaction, one of the reasons to select Bermuda as top holding company domicile was that it offers Flow Traders the possibility to continue all major elements of its current governance. However, in comparison with the current governance, shareholders of Flow Traders Ltd. will lose two important rights: i) the right to adopt the annual accounts and ii) the right to discharge the members of the board. In the second Q&A, Flow Traders remarks that the annual accounts will henceforth be adopted by the board as a matter of mandatory Bermuda law. Moreover, the company remarks that it is practically impossible for a Bermuda listed company to ask shareholders for discharge. Would Flow Traders, nevertheless, be willing to place these topics on the agenda of the annual meeting for an annual, non-binding, advisory vote? In this way, shareholders can still signal their satisfaction (or dissatisfaction) with the financial or general policy pursued by the board, respectively. It further does justice to the premise of maintaining all major elements of the current governance.

With respect to the discharge of directors, it is important to clarify that this will not be a recurring decision item by any corporate body of the company. As the discharge will not be subject to a resolution of a corporate body, a non-binding advisory vote regarding such discharge would not serve a purpose as there is no corporate body to which such advice would be directed.

The annual accounts will be adopted by the board. As such, the general meeting could cast a non-binding advisory vote addressed to the board in this regard. However, shareholders may not be inclined to recommend against adoption of the annual accounts, irrespective of whether such shareholders are satisfied (or dissatisfied) with the financial or general policy pursued by the board.

However, Flow Traders understands the concern EUMEDION expresses and will consider potential alternative non-binding advisory voting items in the context of future AGMs. In that context, Flow Traders will also monitor future developments in the context of strategy-related non-binding advisory votes.