

BUX

by  **ABN·AMRO**

Securities Lending Handbook

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BUX B.V. is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) with its statutory seat in Amsterdam, the Netherlands, registered with the Trade Register of the Dutch Chamber of Commerce in Amsterdam under number 58403949. BUX B.V. is authorised as an investment firm and supervised as such by the Dutch Authority for the Financial Markets (AFM).

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Introduction

You have become a client of BUX and explicitly given approval for the lending of Your Financial Instruments. The aim of lending Your Financial Instruments is to achieve a return for BUX, make it possible to offer certain services free of charge and keep other costs as low as possible for You. This allows us to not charge any custody fee, for instance. This Securities Lending Handbook (hereafter: the Handbook) explains how this works and what risks are involved.

The Handbook is intended to provide explanation and is in supplement to the BUX Securities Lending Agreement. The Handbook contains relevant information which is important for You to read before becoming a client. Read the BUX Securities Lending Agreement and this Handbook carefully, therefore, and don't hesitate to contact BUX's Customer Support at support@bux.com if You have any questions.

Securities lending

When active

Securities lending is immediately active as soon as You have become a client and explicitly given approval for this.

All types of Financial Instruments

Securities lending pertains to all Financial Instruments that BUX offers.

Definitions

The terms used in this Handbook have the same meaning as attributed to them in the BUX Client Agreement, unless defined otherwise below.

Legal title

When BUX borrows Financial Instruments from You, You transfer the legal title to these Financial Instruments to BUX, or an entity appointed by it for this purpose, for the duration of the loan period. However, you will retain the beneficial ownership of the Financial Instruments which are Lent.

Beneficial ownership

In securities lending, You retain beneficial ownership of the Financial Instruments lent. This means that You are exposed to the price risk of the securities, whether or not the Financial Instruments are lent. The claim You have on BUX, which is equal to the value of the Financial Instruments lent, will count towards the total on the annual income statement for tax purposes. You also receive a manufactured payment of dividend if Your Financial Instruments are lent during a dividend payment. After all, You may not hold the Financial Instruments any longer, but You are still the beneficial owner.

Counterparty

BUX is always the counterparty which borrows Your Financial Instruments. BUX will, in turn, lend the Financial Instruments to various other parties.

How securities lending works

What it involves

Securities lending is a term for the lending of Financial Instruments. By becoming a client of BUX, You agree that the Financial Instruments in Your account may be lent. As set out above, BUX has implemented a collateral structure which aims to mitigate the risk to which You are exposed in the event that BUX would not be able to meet its obligations towards you.

Often, securities brokers lend out financial instruments. There are various reasons why a third party might want to borrow these Financial Instruments. The most common reasons are:

- The Financial Instruments are used to hedge brief short positions;
- The Financial Instruments are used by large parties that believe they can buy the share for a cheaper price in the future by borrowing it now and selling it on.

What it means for You

As soon as You have become a client of BUX and have therefore agreed to the BUX Securities Lending Agreement, all Financial Instruments in Your portfolio can be lent. This means that:

- You can sell Your Financial Instruments, regardless of whether they are lent or not;
- You will receive the dividend, but in the form of a manufactured payment of dividend;
- The value of the Financial Instruments counts towards the total on Your annual income statement for tax purposes;
- You retain beneficial ownership of the Financial Instruments, which also means that You still run the price risk of the Financial Instruments.

Selection of Financial Instruments

We do not know in advance which Financial Instruments will be lent or when; sometimes just a part of the portfolio is lent and sometimes none of it. The market dictates the demand for the Financial Instruments; there is no certainty whatsoever whether BUX will indeed be lending the Financial Instruments.

Partners

BUX works with professional parties with vast experience in lending Financial Instruments. Those parties facilitate the BUX securities lending structure. As part thereof, they ensure that the borrower furnishes security for the Financial Instruments and they supervise the collateral and its value.

Collateral

An allocation method is used to determine which Financial Instruments from which account holders will be borrowed. As set out above, BUX will be that party that borrows Your Financial Instruments. BUX intends to Lend Your Financial Instruments to third parties. BUX will ensure that it receives a sufficient amount of collateral when it does so. BUX will transfer, or will procure the transfer of, this collateral to Stichting BUX Collateral. The reason for Stichting BUX Collateral holding this collateral is to mitigate the risk that BUX cannot meet its obligations towards You.

The collateral is usually extremely liquid and readily marketable; the collateral will normally consist of government bonds. The amount of collateral is adjusted daily to ensure there is always sufficient collateral.

Stichting BUX Collateral

In the event of BUX's insolvency or other cases in which BUX is unable to return the Financial Instruments, Stichting BUX Collateral will apply the collateral it holds, to acquire equivalent Financial Instruments. Stichting BUX Collateral will subsequently deliver those Financial Instruments to You and other Clients who Lended their Financial Instruments to BUX.

Dividend

During the period that Your Financial Instruments are lent, You will receive a manufactured payment of dividend instead of a normal dividend. This is because You are no longer the legal owner, but are indeed entitled to dividends or other corporate actions. These are usually equal to the net payment of a dividend and sometimes equal to the gross dividend. With American Financial Instruments, the normal dividend tax on the dividend payment is usually withheld from a manufactured payment of dividend. For all corporate actions other than dividends, BUX makes every effort to recover the Financial Instruments so that you will be brought in the same position as would have been the case if BUX had not lent the Financial Instruments.

Risks

Risk of insolvency

Since BUX is Your counterparty for every transaction, You run an insolvency risk on BUX. If BUX would become insolvent, it will be unable to return the Lended Financial Instruments to You. This risk is mitigated by the security structure under which Stichting BUX Collateral holds collateral. In the event that BUX is not able to meet its obligations in connection with respect to the Lended Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to acquire equivalent Financial Instruments. Stichting BUX Collateral will subsequently deliver those Financial Instruments to You and other Clients who Lend their Financial Instruments to BUX.

If BUX would become insolvent at a moment on which (a) it has already borrowed Your Financial Instruments, and (b) the Stichting BUX Collateral has not yet received the relevant collateral, You will have an unsecured claim in BUX' bankruptcy estate. It is unlikely that You will receive back all of Your Financial Instruments.

Borrower default risk

As set out above, BUX will Lend Your Financial Instruments to one or more third parties (borrowers). Those borrowers must provide collateral to BUX to secure their obligation to redeliver the relevant Financial Instruments to BUX. BUX will transfer, or will procure the transfer of, this collateral to Stichting BUX Collateral.

If the borrower would – at some point – be unable to redeliver financial instruments to BUX, BUX will apply the collateral to meet its obligations in relation to Your Lended Financial Instruments. In such an event, the collateral will be used to acquire equivalent Financial Instruments, which will be delivered to You. Although BUX will monitor on an ongoing basis whether the amount of collateral is sufficient to meet its obligations towards You, it is possible that the execution value of the collateral turns out to be lower than expected. In such an event, BUX will have to use its own funds to meet its obligations towards You. If these funds are insufficient for that purpose, it is likely that You will not receive back all of Your Financial Instruments.

Repurchase risk

In the event that BUX cannot meet its obligations to You in relation to the Lended Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to buy equivalent Financial Instruments in the market. There is a risk that the value of the collateral may be insufficient to buy back all the Financial Instruments on the market. If the market price increases during the liquidation process, it is highly likely that the collateral may prove to be insufficient and You run the risk of a loss.

Selling risk

As set out above, the lending of Your Financial Instruments does not affect your ability to sell those Financial Instruments on the market. However, under exceptional market circumstances, such as an unexpected high amount of sell orders of BUX clients, it is possible that You will not be able to sell Your Lent Financial Instruments within the timeframe desired by You.

Timing risk

In the event that BUX would need to use the collateral which the borrower provided, to meet its obligations towards You, there will be a period of time between (i) the moment on which BUX starts to use the collateral to acquire equivalent Financial Instruments, and (ii) the moment on which BUX meets its redelivery obligation towards You. It is likely that You will during this period be unable to sell the Lended Financial Instruments concerned.

Price risk

Aside from whether the Financial Instruments are lent or not, You are always exposed to price risk on the Financial Instruments. The price of Financial Instruments rises and falls, this risk continues to exist.