

ADOPTED
at the meeting held by
JSC „Baltic International Bank“
Management Board
On 11 November 2016
Minutes No 01-05/45/16

APPROVED
at the meeting held by
JSC „Baltic International Bank“
Supervisory Board
On 5 December 2016
Minutes No 25-01/13/16

CLIENT CATEGORISATION POLICY related to the provision of investment services and ancillary services

1. Definitions and Interpretation

For the purposes of this Policy:

- 1.1. **Bank** means JSC Baltic International Bank.
- 1.2. **Client** means an investor, a private or legal person to whom Bank intends to provide or provides investment services (core services) and /or ancillary (non-core) services.
- 1.3. **Act** means the Financial Instruments Market Act of the Republic of Latvia.
- 1.4. **Investment Services** means Bank-provided investment services and ancillary services within the meaning of the Act.
- 1.5. **Questionnaire** means a Questionnaire devised by Bank and completed by Client, which contains information needed to carry out a suitability assessment, i.e. to evaluate Client's knowledge, experience and expertise in the area of Investment Services and, based on the suitability assessment, assign the appropriate category to Client, thus ensuring the envisaged investor protection while providing Investment Services.
- 1.6. **Client Status** (Category) means one of the three categories (Retail Client, Professional Client, Eligible Counterparty) used by Bank in its relationship with Client in order to offer Client suitable Investment Services that are suitable and appropriate for Client and provide Client with the appropriate level of investor protection afforded under the regulatory regime.
- 1.7. **Professional Client** is a client
 - who possesses experience, knowledge and expertise to make its own investment decision and properly assess the inherent risks assumed by Client while receiving from Bank Investment Services, and
 - categorised as Professional Client in the manner prescribed by Article 124.1 (2) of the Act or Article 124.1 (5), (6) and (7) of the Act.
- 1.8. **Retail Client** is a client that falls in neither the Professional Client category nor the Eligible Counterparty category.
- 1.9. **Eligible Counterparty (ECP)** means a client that falls in a separate and distinct category. ECP's, in general, are investment firms, credit institutions, collective investment schemes and management companies of such schemes, pension funds and management companies of such funds, other financial institutions licensed and operating under the national laws of a Member State regulating financial services; national governments and other public bodies that deal with

public debt; central banks; other persons listed in the Act and categorized as Eligible Counterparties in the manner prescribed by Article 124.2 of the Act.

- 1.10. **Asset Management Service** is, within the meaning of this Policy, managing of Client's financial instruments in accordance with mandates given by Client on a discretionary basis (portfolio management service).
- 1.11. **FCMC** is the abbreviation for the Financial and Capital Market Commission, the Government of Latvia's unified public financial services regulator.

2. General Provisions

- 2.1. This Policy prescribes the manner whereby Bank undertakes client categorisation and re-categorisation and ensures compliance with other requirements of applicable laws with respect to Client's status and protection of Client's interests when providing Investment Services.
- 2.2. This Policy has been drawn up with reference to:
 - 2.2.1. the Financial Instruments Market Act [Finanšu instrumentu tirgus likums] of the Republic of Latvia
 - 2.2.2. the FCMC's rules, regulations and guidelines
 - 2.2.3. other binding pieces of legislation such as acts, rules and regulations, at both EU and national level.
- 2.3. This Policy becomes effective upon final approval by Bank's Supervisory Board (Supervisory Board).
- 2.4. All amendments and / or supplements to this Policy become effective upon final approval by the Supervisory Board.
- 2.5. This amended Policy supersedes the „Client Categorisation Policy related to the provision of investment services and ancillary services” approved by the Supervisory Board on 17 November 2015 (Minutes No 25-1/21/15).

3. Procedure for Client Categorisation and Re-categorisation

- 3.1. Before commencing the provision of Investment Services, Bank categorises Client as a Retail Client, Professional Client or Eligible Counterparty and gives Client a written notice thereof.
- 3.2. Bank determines (identifies) Client's status and categorises or re-categorises Client, i.e. changes Client's original category according to the criteria set forth in the Act and based on the Questionnaire responses and Client-related information possessed by Bank. In certain instances when Bank decides whether to assign Professional Client category, Bank examines the documents that substantiate the facts contained in the Questionnaire.
- 3.3. If Bank becomes aware that Client no longer fits the category in which it was originally categorised, Bank may decide to change Client's category after having given Client a prior written notice of the re-categorisation.
- 3.4. Client may request to be classified in a different category which, accordingly, entails the change in the level of investor protection. Client may request to be accorded another status in relation to all or in relation to specific types of Bank's Investment Services, by submitting the relevant written application to Bank and concluding the written agreement with Bank.
- 3.5. When considering Client's application to be re-classified into the category that provides a lower level of investor protection, Bank requires that Client re-completes the Questionnaire and furnishes Bank with information and documents that
 - prove Client's knowledge, expertise and experience relating to the respective area for Investment Services

- allow Bank to arrive at the conclusion that Client is capable of making appropriate investment decisions and understanding the risks involved.

To re-categorise Retail Client as Professional Client, Bank and Client conclude the relevant written agreement.

- 3.6. Bank informs Client of Client's right to request for re-categorisation in the manner prescribed by the Act and Bank's „Client Categorisation Procedure“.

4. Client Categorisation Criteria

4.1. Eligible Counterparty category

4.1.1. Bank may assign (without receiving Client's prior written consent) the **Eligible Counterparty category** to Client that is:

- 4.1.1.1. Credit institution
- 4.1.1.2. Investment brokerage firm
- 4.1.1.3. Investment management company
- 4.1.1.4. Pension fund
- 4.1.1.5. Insurance undertaking
- 4.1.1.6. Other licensed financial institution that carries out its activities subject to and in compliance with the laws and regulations that govern the financial services industry in the respective EU Member State or non-EU country.

4.1.2. Bank may assign the **Eligible Counterparty category** only after receiving the respective written consent from Client if Client is a legal entity, has provided the respective information in the Questionnaire and has confirmed that Client is:

- 4.1.2.1. a commodity dealer (a person who deals on own account in commodities or derivative commodity instruments) that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and is subject to supervision by the competent local authority;
- 4.1.2.2. a firm (that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and is subject to supervision by the competent local authority) which deals for its own account on markets in financial futures or options or other derivatives or on cash markets for the sole purpose of hedging positions on financial derivatives markets or which deals for the accounts of other members of those markets or makes prices for them and which is guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such a firm is assumed by clearing members of the same market;
- 4.1.2.3. a company (that is duly licensed in the Republic of Latvia or a third country to deal in the financial market and is subject to supervision by the competent local authority) whose main activity is making sizable investments in financial instruments;
- 4.1.2.4. a company that meets at least two of the three criteria listed below:
 - own funds at least EUR 2 million
 - net turnover at least EUR 40 million
 - balance sheet total at least EUR 20 million.

4.1.3. If Professional Client satisfies the criteria of Eligible Counterparty as set forth in the Act, then Professional Client may request to be assigned the Eligible Counterparty status in respect of all Investment Services as well as in respect of certain Investment Services, transactions or products, by specifying the respective type of Investment Service, transaction or product in the written statement of consent submitted to Bank.

4.1.4. If Client is a dealer/firm/company referred to in 4.1.2.1 to 4.1.2.4 hereof, provides proof of its registration in a Member State of the European Union (EU) or the European Economic Area

(EEA) and enjoys a Client status other than that established by Bank, then Bank may assign Client status assignable under the laws of this respective Member State, based on Client-provided information about the applicable laws of the respective EU or EEA Member State.

4.1.5. Client to be categorised as Eligible Counterparty according to cl. 4.1.1 hereof, may request (by concluding the respective written agreement with Bank) that Bank assigns either the Professional Client or Retail Client category providing a higher level of investor protection.

4.2. Professional Client category

4.2.1. Bank may assign, without Client's written application, the Professional Client category in respect of all Investment Services and financial instruments to Client that is:

4.2.1.1. a commodity dealer (a person who deals on own account in commodities or derivative commodity instruments) that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and is subject to supervision by the competent local authority;

4.2.1.2. a firm (that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and is subject to supervision by the competent local authority) which deals for its own account on markets in financial futures or options or other derivatives or on cash markets for the sole purpose of hedging positions on financial derivatives markets or which deals for the accounts of other members of those markets or makes prices for them and which is guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such a firm is assumed by clearing members of the same market;

4.2.1.3. a company that is duly licensed to deal in the financial market in the Republic of Latvia or a third country or unlicensed company whose main activity is making sizable investments in financial instruments;

4.2.1.4. a company that meets at least two of the three criteria listed below:

- a) own funds at least EUR 2 million
- b) net turnover at least EUR 40 million
- c) balance sheet total at least EUR 20 million.

4.2.1.5. a person treated as a Professional Client in any other Member State of the European Union (EU) or the European Economic Area (EEA).

4.2.2. Bank may assign the Professional Client category to any Client who is not mentioned in cl. 4.2.1 hereof but has applied for the category by submitting the written application, whose knowledge, experience and expertise have been assessed by Bank, and who meets at least two of the three criteria listed below:

4.2.2.1. Client conducted more than 10 sizeable transactions in the respective financial market per quarter over the previous four quarters;

4.2.2.2. the size of Client's portfolio, defined as including financial instruments and cash deposits, exceeds EUR 500 000;

4.2.2.3. Client has worked in the financial services sector for at least one year in a professional position that requires knowledge and expertise in respect of transactions and services which Client is planning to carry out or receive as a Professional Client.

4.2.3. Prior to classifying Client referred to in 4.2.2 above as Professional Client, Bank undertakes an adequate assessment of experience, knowledge and expertise of Client to obtain reasonable assurance, in light of the nature of the transactions or services envisaged, that Client is capable of making its own investment decision and understands the risks involved. When it comes to assigning Professional Client category, Bank at all times enters into the written agreement with Client referred to in cl. 4.2.2 hereof.

4.2.4. Bank may grant the status of a Professional Client to Client referred to in cl. 4.2.2 hereof in respect of all or selected types of Investment Services, types of transactions or in relation to

a specific transaction or product, based on Client's application wherein Client indicates a particular type of Investment Service, transaction or product in relation to which Client is applying for the status of a Professional Client.

- 4.2.5. A Retail Client, who wants to be re-categorised as Professional Client, submits the application wherein Client indicates a particular type of Investment Service, transaction or product in relation to which Client is applying for the status of a Professional Client and concludes the written agreement with Bank.
 - 4.2.6. Prior to granting the Professional Client category to a Retail Client, Bank gives a clear written warning of the rights (certain regulatory protections as a Professional Client) that Client will lose by abandoning its then-current Retail Client status and acquiring Professional Client status instead. Client signs the 'Client Acknowledgement' section wherein Client confirms that he has been warned and is aware of the re-categorisation consequences.
 - 4.2.7. Client grouped into the Professional Client category in the manner prescribed by cl. 4.2.2 above is responsible for keeping Bank continuously informed of any change in his activities that could affect Client's current categorisation. If Bank obtains information proving that Client no longer meets the initial conditions that have previously made it eligible for a Professional treatment, Bank makes the decision to cancel the category and gives Client a notice of the cancellation. Bank has the right to request Client to submit the aforesaid information and the relevant supporting (confirming) documents.
- 4.3. All Clients that do not meet the criteria for classification as Professional clients or Eligible Counterparties are classified in the Retail Client category.
- 4.3.1. For Retail Clients, Bank ensures the protection of investor rights in the manner prescribed by the applicable laws of the Republic of Latvia and Bank's compliance documents¹.
 - 4.3.2. Both a Professional Client and an Eligible Counterparty may request Bank to re- categorise them as a Retail Client. For any request to be categorised as a Retail Client, Client must file a written application stating if this categorisation is for general purposes and relates to all Investment Services, or whether it is a specific request and relates to a specific type of Investment Service, transaction or product. Client wishing to be treated as a Retail Client submits the relevant application wherein Client indicates a specific Investment Service, transaction or product in relation to which Client is applying for the status of a Retail Client.
 - 4.3.3. Professional Client is re-categorised to Retail Client in accordance with the respective written agreement between Bank and Client. The agreement stipulates certain types of Investment Services, transactions or product types provided on that basis (appropriate/suitable for Retail Clients).

5. Final Provisions

- 5.1. Client is obligated to give Bank timely notice of any changes in previously submitted information (including the Questionnaire) which can affect Client's appropriateness for the assigned Client status or conformance to the status-related requirements. Client is obligated to submit, upon Bank's request, the documents that substantiate the correctness of the facts contained in the Questionnaire.
- 5.2. If Client refuses to provide the information requested in the Questionnaire or the documents that substantiate the correctness of the facts/information contained therein:
 - about Client's knowledge, experience and expertise with respect to transactions in financial instruments (suitability assessment), investment objectives and financial condition (required to assess whether a Client-chosen asset management service is suitable for Client and

¹ Explanatory comment: 'compliance documents' is an all-encompassing term for documents such as Bank- wide policies, standards, procedures, guidelines and others; alternatively, 'internal guidance' and 'regulatory framework' are used

- satisfies Client's interests, then Bank will not be entitled to provide asset management services to comply with the Act, 126.2 (9);
- about Client's knowledge, experience and expertise with respect to transactions in financial instruments (suitability assessment), investment objectives and financial condition (required to assess whether a Client-chosen other investment services -- except for asset management services and advice concerning investing in financial instruments-- are suitable for Client and satisfy Client's interests, then Bank will (i) warn Client that Bank is unable to carry out Client's suitability assessment in an appropriate manner (to determine whether the services are suitable for Client and whether they meet Client's interest); (ii) will not be liable whatsoever for any consequences resulting from inaccurate or incomplete information submitted to Bank.

6. Responsibility and Control

- 6.1. The Management Board regularly, at least once every year, reviews and revises the Policy and related regulatory framework.
- 6.2. Bank notifies Client of all Policy-related changes. The most current version of the Policy is available for viewing on Bank's website <http://www.bib.eu> and at Bank's head office (Riga, Grēcinieku 6) and representative offices.
- 6.3. The Policy is adopted by the Management Board and approved by the Supervisory Board.
- 6.4. The Management Board has the overall responsibility for overseeing the adherence to this Policy.
- 6.5. The Supervisory Board has the overall responsibility for supervising the implementation of this Policy.
