

CLIENT CLASSIFICATION POLICY IN PROVISION OF INVESTMENT SERVICES

Content

1. Goal	1
2. Terms and abbreviations used with a lower- or upper-case letter	1
3. Basic principles of the Policy	1
4. Initial Client classification	2
5. Assignment /Change of the Client's status upon the Client's request	4
6. Supervision of the Client's status	6
7. Assessment of the Client's suitability for transactions with FI	6
8. Related documents	6

1. Goal

- 1.1. The Bank has developed the Policy with a view to:
 - 1.1.1. meet the requirements of the LR Financial Instruments Market Law, the European Parliament and Council Directive 2014/65/EU, as well as the Commission Delegated Regulation (EU) 2017/565;
 - 1.1.2. ensure the protection of interests of the Clients, setting criteria for determining the status of Clients, and define the general principles and procedure for assigning the status of Clients.

2. Terms and abbreviations used with a lower- or upper-case letter

- 2.1. **Bank** – AS "PNB Banka".
- 2.2. **Client** – a person to whom the Bank will provide the Services, as defined in the Law, in accordance with the concluded service agreement.
- 2.3. **Law** – LR Financial Instruments Market Law.
- 2.4. **Services** – investment services and associated investment services within the meaning of the Law.
- 2.5. **FI** – financial instruments.
- 2.6. **LR** – the Republic of Latvia.
- 2.7. **EU** – European Union.
- 2.8. **Professional client** – a Client having relevant experience, knowledge and competence to adopt an independent investment decision and duly assess the risks he takes, and who has concluded an agreement with the Bank on assigning the respective status.
- 2.9. **Private Client** – a Client to whom the highest level of Clients' interest protection is applied, and the Bank assigns this status to both natural and legal persons.
- 2.10. **Order** – Client's order within the meaning of the Bank's Order Execution Policy.
- 2.11. **Eligible counterparty** – a Client who complies with the criteria set in Clauses 4.8. and 4.9. of this Policy.
- 2.12. All the rest of the terms that are not specified in this Policy are used in accordance with their definition laid down in the Law.

3. Basic principles of the Policy

- 3.1. This Policy has been developed on the basis of the following principles:
 - when developing the Bank's internal legislative documents, the Bank has complied with requirements of the laws and regulations of LR and EU,
 - this Policy is available to Clients.
- 3.2. This Policy shall be updated once in a year.

4. Initial Client classification

- 4.1. The Bank can assign to the Client the status of a Retail Client, Professional Client or Eligible Counterparty.
- 4.2. The Bank grants to the Client a status upon evaluation of the information provided by the Client to the Bank and also public information regarding the Client's activity, knowledge and experience in transactions with FI, for each FI separately.
- 4.3. Depending on the Client's status, when conducting transactions with the Client and rendering to the Client the Services, the Bank applies measures for the protection of the Client's interests as provided for in the regulatory acts of LR.
- 4.4. The Bank is entitled to apply to the Client, irrespective of the status assigned thereto, a higher degree of protection in relation to all or some of the Services (e.g. the Eligible Counterparty might receive the service intended for the Professional Client or the Retail Client, while the Professional Client – the service intended for the Eligible Counterparty).
- 4.5. In business relationship with Eligible Counterparties and Professional Clients, the Bank is entitled not to apply certain measures for protection of the Client's interests, because Clients with the mentioned statuses are regarded as those having necessary experience and expertise, understanding the essence of FI and being financially capable of taking risk of any loss that a transaction concluded by them may cause, in particular, the Bank does not analyse pertinence and conformity of FI, does not inform of the related risks.
- 4.5.1. In business relationship with the Eligible Counterparty the Bank acts honestly, fairly and professionally and communicates in a way which is fair, clear and not misleading, taking into account the nature of the Eligible Counterparty and of its business.
- 4.6. The Bank grants the Client the Eligible Counterparty status regarding the following Services:
 - acceptance of the Client's instructions for transactions with FI and submission thereof for execution,
 - execution of the Client's instructions for transactions with FI for account of the Client,
 - conclusion of FI transactions with the Client for account of the Bank.
- 4.7. The Bank grants the Client the Eligible Counterparty status if it is:
 - 1) a credit institution;
 - 2) an investment brokerage company;
 - 3) an investment management company;
 - 4) an insurance company;
 - 5) a pension fund and its management companies;
 - 6) a commercial company, which conducts transactions in options markets, futures markets or derivative FI markets or a derivative FI underlying asset market in its own name, the only aim of which is to restrict the financial risk on derivative FI market, or which conducts transactions for account of other participants of this market, which is guaranteed by the payment system participants in the respective market, who assume responsibility for execution of agreements concluded by these companies;
 - 7) a person whose basic activity is conduct of transactions with commodities or derivative commodity instruments for its own account, if it is not part of a group of commercial companies, the basic activity of which is provision of other investment services or financial services;
 - 8) other financial institution which is licensed and conducts activity in accordance with legislative acts of a member state of the EU or a foreign country which regulate financial services;

- 9) a governmental institution or other public institution, which manages the state debt, central banks and supranational organisations.
- 4.8. The Bank can assign the status of the Eligible Counterparty also to the persons below upon receipt of their written consent:
- 1) institutions regulated or licenced for operation on the financial market in RL or another country:
 - commodity dealers,
 - a commercial company, which conducts transactions in options markets, futures markets or derivative FI markets or a derivative instrument underlying asset market in its own name, the only aim of which is to restrict the financial risk on derivative FI market, or which conducts transactions for account of other participants of this market, or which creates prices for those participants, and which is guaranteed by the payment system participants in this market, if the payment system participants in this market undertake responsibility for execution of agreements concluded by these companies,
 - other commercial companies, whose principal activity is investing in FI and which makes such investments in large amounts;
 - 2) commercial companies which comply with two of the three requirements listed below:
 - own capital – at least 2 (*two*) million euro,
 - net turnover – at least 40 (*forty*) million euro,
 - balance-sheet value – at least 20 (*twenty*) million euro;
 - 3) countries, state institutions managing the government debt, countries' central banks, the World Bank, the International Monetary Fund, the European Central Bank and other international financial institutions.
- 4.8.1. The consent can be obtained in relation to the provided investment services in general, to individual investment services or to individual transactions.
- 4.9. If the Bank's potential Client is a company equivalent to the companies referred to in Clause 4.8. of this Policy registered in another member state, the Bank can assign to the company the status of the Eligible Counterparty, considering the provisions of Clause 4.8. of this Policy.
- 4.10. In respect of the Services not mentioned in clause 4.6. of this Policy, the Bank grants the Professional Client status to the Clients mentioned in Subclauses 4.7. (8.-9.) of this Policy, as well as to the Clients mentioned in Subclauses 4.7. (1.-7.) of this Policy if those are licensed and supervised for activity on a financial market (in any country), or if they comply with at least one of the criteria determined in Clauses 4.11.2. – 4.11.6. of this Policy.
- 4.11. The Bank may assign the Professional Client status regarding all or separate Services and transactions with FI to the Client who is:
- 4.11.1. an institution regulated and licensed for operation in a financial market in LR or another country:
- an investment fund and an investment management company,
 - an alternative investment fund and alternative investment fund manager, a commodity dealer,
 - a credit institution,
 - an investment brokerage company,
 - other licensed or regulated financial institution,
 - an insurer,
 - a pension fund and a pension fund manager,
 - a company which performs operations in its own name in options, futures or derivative FI markets, or on the markets of derivative underlying assets, with the sole purpose of limiting financial risks associated with the derivative FI market, or which performs operations on behalf of other market participants or forms prices for them, where such operations are guaranteed by the participants of the system of settlements on this market provided that

- liabilities for ensuring execution of contracts concluded by such company is assumed by the participants of the system of settlements on this market,
- other commercial company engaged primarily in large-scale investments in FI;
- 4.11.2. a commercial company, which complies with at least two of the three below mentioned requirements:
- 1) own capital is not lesser than 2 (*two*) million euros;
 - 2) net turnover is not lesser than an equivalent of 40 (*forty*) million euros;
 - 3) balance-sheet value is not lesser than an equivalent of 20 (*twenty*) million euros;
- 4.11.3. states, states institutions which governs National debt, national central banks, the World Bank, the International Monetary Fund, the European Central Bank and other international financial institutions;
- 4.11.4. another commercial company the basic activity of which is investment in FI, in particular, securitisation of financial assets or another transaction financing, and which makes such investments in large volumes;
- 4.11.5. a person who has been recognised as the Professional Client according to the procedure equivalent to the one established in the Law.
- 4.12. The Clients who do not comply with the criteria determined in clauses 4.6.-4.11. of this Policy are assigned the Retail Client status.
- 4.13. Prior to commencing the provision of the Services, the Bank shall inform the Client about the status granted thereto.
- 4.14. If after commencement of the provision of the Services the Bank establishes that the Client complies with the criteria determined in Clauses 4.6.-4.11. of this Policy, the Bank could initiate the change of the Client's status in relation to all or several Services and transactions with FI.
- 4.15. The Bank is entitled to grant to the Client separate statuses in respect of separate Services, as well as in respect of separate transactions or types of transactions.

5. Assignment /Change of the Client's status upon the Client's request

- 5.1. Any Client has the right to require the Bank to assign/to change his/her/its status regarding the Services that the Bank provides to the Client.
- 5.2. A Retail Client has the right to require the Bank to assign his/her/its status to the professional Client status if the Client complies with at least two of the following criteria:
- 5.2.1. the Client has conducted transactions with financial instruments of significant volume, the decision on which the Client made by himself - at least 10 (*ten*) transactions per quarter within the period of previous four quarters:
- transactions with equities or investment funds, where amount of one transaction reached at least 50 000 (*fifty thousand*) *euro* (or an equivalent in other currency),
 - transactions with corporate and government bonds, where amount of one transaction reached at least 200 000 (*two hundred thousand*) *euro* (or an equivalent in other currency),
 - transactions with derivatives, where notional amount of one transaction reached at least 1 000 000 (*one million*) *euro* (or an equivalent in other currency),
 - currency margin trade transactions, where the amount of one transaction reaches at least 1 000 000 (*one million*) *euro* (or its equivalent in another currency);
- 5.2.2. the value of the Client's FI portfolio, which includes financial assets and FI, exceeds 500 000 (*five hundred thousand*) *euro*;
- 5.2.3. the Client has at least one-year experience in the financial sector, holding a position which requires knowledge about financial market transactions and services, which the Client is planning to conduct or receive as a professional client.

- 5.2.3.1. Positions which the Bank considers related to the financial sector, are as follows:
- Broker/dealer/trader,
 - Portfolio manager or investment fund manager, investment strategist,
 - Financial market analyst,
 - Investment adviser;
 - Surveillance expert for investment services,
 - Other position within which the fulfilled duties correspond in their essence to the duties performed at the above-mentioned positions.
- 5.3. If the Retail Client requests the Professional Client status based on the fact that such Client complies with at least two criteria referred to in Clauses 5.2.1.-5.2.3. of the Policy, the Bank – prior to granting the Professional Client status – requests from the Client:
- 5.3.1 as justification for the criterion specified in Clause 5.2.1. of this Policy – statements of the Client's accounts in a credit institution/brokerage company regarding the respective Client's turnover on the FI account during the period which is no less than 1 (one) year. The Client submits such a statement regarding all FI types in relation to which the Clients wants to obtain the Professional Client status;
- 5.3.2 as justification for the criterion specified in Clause 5.2.2. of this Policy – statement of the Client's account (in a credit institution/investment company), in which the value of the FI portfolio is specified;
- 5.3.3 description of the occupation/work experience of the Client/Client's legal representative specifying the Client/Client legal representative's positions held, places of work, period of working at a certain position and job responsibilities.
- 5.4. On the basis of the Client's written application, and having evaluated the Client's experience, knowledge and description of the Client's activity in accordance with the procedure established by the Bank, in particular, if required, based on the documents and information received from the Client and specified in Clause 5.3. of this Policy the Bank evaluates the possibility to assign the Professional Client Status to the Client.
- 5.4.1. Prior to granting the status of professional client to a retail Client, the Bank warns in writing the Client on investor protection rights which may be forfeit in the status of a professional client, and the Client shall sign a confirmation on receiving such a warning and understanding the forfeit of such rights.
- 5.5. When assigning/changing the Client's status, the Bank concludes with the Client the respective written "Agreement on granting the Professional Client status", except if the Client has been granted the Retail Client status in relation to all Services and transactions with FI.
- 5.6. The Bank has the right to refuse to change the Client's status to a status with a lower protection level, if the Bank establishes that the Client's knowledge, experience, volume of resources, or other factors describing the Client do not comply with the status required by the Client.
- 5.7. Should the Client who is willing to obtain the Professional Client status lack knowledge and experience related to some FI, then in relation to such FI the Bank assigns to the Client the Retail Client status, while the conformity of such FI transactions with the Client is established on the basis of information on the Client's knowledge and experience provided to the Bank in the Client's questionnaire.
- 5.8. If the Eligible Counterparty requests that the Bank changes its status without specifying the new desired status, the Bank could change its status to professional client.

6. Supervision of the Client's status

- 6.1. The Clients are obliged to inform the Bank about any facts and changes in previously provided information that may influence their status.
- 6.2. If the Bank establishes that the Client does not comply any longer with the criteria for the status of the Professional Client or the Eligible Counterparty as determined in the RL regulatory acts and in this Policy, the Bank makes the decision to recall the status and informs the Client in writing thereof. In this case the Bank may assign to the Client a status which provides for a higher protection for the Client, in particular, to replace the status of the Eligible Counterparty with the status of the Professional Client or Retail Client, or replace the status of the Professional Client with the status of the Retail Client.

7. Assessment of the Client's suitability for transactions with FI

- 7.1. In the cases specified by the Law the Bank assesses the sufficiency of knowledge and experience of the Client or the Client's legal representative to understand the risks of the respective transactions with FI and warns the Client or its legal representative in cases when, in the Bank's opinion, the declared transaction is not suitable for the Client or its legal representative, considering the following provisions:
 - 7.1.1. if the Client has requested the Bank not to address a warning about suitability of the Orders and transactions with FI to the Client, in the future, the Bank will not address such warning thereto;
 - 7.1.2. if the Client has been granted access to electronic trading systems, and Orders are being issued in these systems, the Client receives a warning in the Bank's automated system "PNB Internetbanka", along with the data/parameters for accessing the respective electronic trading systems;
 - 7.1.3. if the Client upon receipt of the warning wants to proceed with submission of the Order, which in the Bank's opinion is unsuitable for the Client or its legal representative, the Bank informs the Client and its legal representative that in this case the Client is subject to risks, for the due assessment, control and mitigation of which neither the Client, nor its legal representative has sufficient knowledge and experience, and the Bank in this case is not responsible for the consequences (possible losses) which might be caused by the execution of such Order;
 - 7.1.4. based on the information at its disposal about the Client's performed transactions with FI, the Bank further on (but not sooner than 3 (three) months after execution of the first transaction) can consider that these FI are suitable for the Client, informing the Client of it via the Bank's automated system "PNB Internetbanka".
- 7.2. If the Client refuses to provide the Bank with information requested thereby, provides incomplete or inaccurate information or does not inform the Bank of changes in the information provided previously, the Bank is not responsible for its inability to assess or assess accurately the sufficiency of knowledge and experience of the Client and its legal representative to understand the risks related to the submitted Orders, or for inability to warn the Client or its legal representative of instances when the applied transaction is not suitable and to assess, whether such transaction complies with the Client's investment goals and whether the Client is financially capable of covering the losses which might occur as a result of such activity.

8. Related documents

- 8.1. Directive 2014/65/EU of the European Parliament and of the Council.
- 8.2. Commission Delegated Regulation (EU) 2017/565.
- 8.3. Financial Instruments Market Law of the Republic of Latvia.
- 8.4. Bank's "Agreement on granting the Professional Client status" (MX/05/01314).
- 8.5. Bank's "Application for granting/change of the Professional Client status" (MX/05/01987).

* * *