

# **POLICY FOR DETERMINATION OF THE STATUS OF THE CLIENT FOR PROVISION OF INVESTMENT SERVICES AND AUXILIARY SERVICES**

## **1. GENERAL PROVISIONS**

- 1.1. The **purpose** of “Policy for determination of the status of the client for provision of investment services and auxiliary services” (hereinafter referred to as - the Policy) is to establish sufficient preconditions for protection of interests of clients of the Bank and to facilitate maintenance of trusted and safe environment for provision of investment services and ancillary services on the market in financial instruments.
- 1.2. The policy for determination of the status of the client is developed in accordance with the EU directives and regulatory enactments being in force in the Republic of Latvia and issued by the Financial and Capital Market Commission and the Bank of Latvia, as well as other regulatory enactments, governing the provision of investment services and ancillary investment services.
- 1.3. The Policy defines basic principles, according to which the Bank performs classification of clients, granting and change of the status, information of the client, as well as determines requirements for control measures.
- 1.4. The Policy and amendments thereof shall be reviewed by the Board of the Bank and approved by the Council of the Bank.
- 1.5. The Policy and related internal organizational documents shall be reviewed and updated as per need, when significant circumstances occur, which may affect the ability of the Bank to apply the Policy in accordance with the requirements of regulatory enactments and legal acts, but not less than once a year, in order to ensure compliance thereof with the provisions of regulatory enactments, being in force in the EU and the Republic of Latvia. Resource Management Department shall be responsible for updating of the Policy.
- 1.6. The Bank shall inform the Clients on all significant changes in the Policy, publishing the updated version thereof on the website of the Bank [www.industra.finance](http://www.industra.finance) and ensuring availability thereof at all places of provision of the investments services and ancillary investments services of the Bank.

## **2. PROVISIONS FOR GRANTING THE STATUS OF THE CLIENT**

- 2.1. The following **status** may be applied to the person, to whom the Bank will provide/provides the investment services and/or ancillary investment services (hereinafter referred to as - the Client):
  - 2.1.1. Eligible counterparty or,

- 2.1.2. Professional Client or
- 2.1.3. Retail Client.
- 2.2. When providing the investment services and/or investment ancillary services, the Bank shall have an obligation to provide each Client with the **protection level** corresponding to its status.
- 2.3. **The Bank informs** Clients about the status granted to them before commencement of provision of investment services and/or investment ancillary services.
- 2.4. **The Client shall be entitled** to request for change of the status granted to it by submitting a written submission to the Bank. The Client shall be entitled to request for change of the status:
  - 2.4.1. for all investment services and/or investment ancillary services in general, or only for
  - 2.4.2. a certain type of investment service, type of transaction or specific investment product.
- 2.5. If the Bank accepts the request of a person with the status of **a Retail Client** to the change of the status to **a Professional Client**, the Client and the Bank shall enter into a written agreement regarding change of the status of the Client. Before change of the status the Bank shall issue to the Client a written warning about the investor protection rights that the Client will lose as a result of the change of the status, as well as shall receive a written confirmation of the Client regarding receipt of the warning and understanding on consequences of the investor protection rights.
- 2.6. If the Bank accepts the request of a person with the status of **a Professional Client** to its status change to the status of **a Retail Client**, the Client and the Bank shall enter into a written agreement regarding change of the status, providing for the types of investment services, transactions or products, in respect of which the Client is granted the new status.
- 2.7. If the Bank accepts the request of the **Eligible Counterparty** about change of the status to **Professional Client** or **Retail Client**, the Bank shall inform the Client on the new status granted to it.
- 2.8. If the Bank receives reasonable information from any trusted source of information that the Client fails to correspond with the requirements proposed for a Professional Client, the Client shall be entitled to revoke the decision about the status and to renew the status of a Retail Client, informing the Client on that in writing.

### **3. STATUS OF AN ELIGIBLE COUNTERPARTY**

3.1. The Bank may apply the status of an **Eligible Counterparty**:

3.1.1. **without** receipt of a **written consent of the Client** to the:

- 3.1.1.1. investment brokerage companies;
- 3.1.1.2. credit institution;
- 3.1.1.3. insurance companies;
- 3.1.1.4. investment funds for the purpose of Law On Investment Management Companies and] investment management companies;
- 3.1.1.5. pension funds and their management companies;
- 3.1.1.6. other financial institutions that are licensed or regulated under regulatory enactments of the EU or EU Member States governing financial services;
- 3.1.1.7. National governments and their authorities, including state administration authorities, performing transactions with the national debt on the national level;
- 3.1.1.8. transnational organizations;
- 3.1.1.9. Central bank;

3.1.2. **only subject to the written consent of the Client** with respect to the investment services to be provided in general, individual investment services or individual transactions to the:

- 3.1.2.1. commodities dealers;
- 3.1.2.2. business entities that enter into transactions on the options, futures or derivative instruments markets or markets of underlying assets at their own expense with a sole purpose of hedging financial risk on derivative instruments market, or at expense of other market participants enter into transactions that are guaranteed by the participants of the clearing system within the respective market, if in such case the responsibility for performance of agreements signed by such entities assume the participants of the clearing system within the respective market;
- 3.1.2.3. other commercial companies whose principal business profile is related to investments in financial instruments, including securitization of financial assets or financing or other deals, and that operate at large scale;
- 3.1.2.4. business entities that comply with at least two of the following three requirements:
  - 3.1.2.4.1. equity - at least the equivalent of EUR 2 million,
  - 3.1.2.4.2. net turnover - at least the equivalent of EUR 40 million,

- 3.1.2.4.3. book value - at least the equivalent of EUR 20 million,
  - 3.1.2.5. countries and municipalities, state authorities that are in charge of the national debt, national central banks, the World Bank, International Monetary Fund, European Central Bank and other international financial institutions;
  - 3.1.2.6. foreign entities, which is equal to above-mentioned persons.
- 3.2. Eligible Counterparties have the basic protection level. Transactions between the Bank and Eligible Counterparties shall be considered cooperation between equal parties.
  - 3.3. When dealing with an Eligible Counterparties, if the transaction refers to receipt and transmission for execution of the orders regarding transactions in financial instruments, execution of orders regarding transactions in financial instruments for the account of the Client or any third parties, execution of the transactions in financial instruments for the account of the Bank, the Bank is entitled not to apply the requirements of Sections 126, 126.<sup>1</sup>, 126.<sup>2</sup>, 128, (except Section 128, Paragraphs six, seven and eleven), Section 128.<sup>1</sup>, Paragraph one, Section 128.<sup>2</sup> and Section 128.<sup>3</sup> of the Financial Instruments Market Law.
  - 3.4. When providing services to the Eligible Counterparty, the Bank shall act honestly, decently and professionally and shall provide honest, clear and correct communication, taking into account specific situation of the Eligible Counterparty.
  - 3.5. Eligible Counterparties may request in writing the Bank to change the status granted to them pursuant to the procedure stipulated in the Policy, thus increasing their protection level.
  - 3.6. Where a submission from the Eligible Counterparty is received for the status change without indicating directly whether it seeks the status of a Professional Client or a Retail Client, the Bank shall grant the status of a Professional Client to Eligible Counterparties.

#### **4. STATUS OF A PROFESSIONAL CLIENT**

- 4.1. A range of persons, who are classified as the Professional Clients, pursuant to the Financial Instruments Market Law. The Bank shall apply **the status of a Professional Client to:**
  - 4.1.1. credit institution;
  - 4.1.2. investment brokerage companies;
  - 4.1.3. other licensed or regulated financial institutions;
  - 4.1.4. investment funds and investment management companies;

- 4.1.5. alternative investment funds [for the purpose of Law On Alternative Investments Funds and Their Managers and] alternative investment funds management companies;
  - 4.1.6. insurance companies;
  - 4.1.7. pension funds and pension funds managers;
  - 4.1.8. commodities and commodities derivatives dealers;
  - 4.1.9. commercial companies that enter into transactions on the options, futures or derivative instruments markets or markets of underlying assets at their own expense with a sole purpose of hedging financial risk on derivative instruments market, or at expense of other market participants enter into transactions that are guaranteed and in which case the responsibility for performance of agreements signed by such entities assume the participants of the clearing system within the respective market;
  - 4.1.10. business entities that comply with at least two of the following three requirements:
    - 4.1.10.1. equity - at least the equivalent of EUR 2 million,
    - 4.1.10.2. net turnover - at least the equivalent of EUR 40 million,
    - 4.1.10.3. book value - at least the equivalent of EUR 20 million,
  - 4.1.11. countries and municipalities, state authorities that are in charge of the national debt (on the national or regional level), national central banks, the World Bank, International Monetary Fund, European Central Bank and other international financial institutions;
  - 4.1.12. other commercial companies whose principal business profile is related to investments in financial instruments, including securitization of financial assets or financing or other deals, and that operate at large scale;
  - 4.1.13. persons that have been classified as Professional Clients in another country, pursuant to a procedure that is equal to the procedure determined by the Bank.
- 4.2. The Bank shall be entitled to classify as a Professional Client any person that is not listed in Paragraph 4.1 of the Policy, but has made the relevant written request if:
- 4.2.1. the Bank has assessed the competence, knowledge and experience of the person and has ascertained that, in view of the specific nature of the respective or planned transaction or service, the person is able to take independent investment decisions and is aware of the related risks, and
  - 4.2.2. the person complies with at least two of the criteria as follows:
    - 4.2.2.1. the person has made transactions of a notable volume on the respective market - at least 10 transactions per quarter during the previous 4 quarters,

- 4.2.2.2. the value of the person's financial instruments portfolio, including financial assets and financial instruments, exceeds EUR 500,000.
- 4.2.2.3. the person has an experience in the financial sector of at least one year in a position requiring knowledge in respect of transactions and services that the person intends to make or receive as a Professional Client.
- 4.3. The persons classified as Professional Clients according to the procedure stipulated in Paragraph 4.2 of the Policy shall have an obligation to provide to the Bank the information about changes in their operational activities that may affect the compliance of such persons with the requirements set out for the status of the Professional Client.
- 4.4. Medium protection level is applied to the Professional Client. The Bank shall be entitled to assume that a Professional Client has sufficient knowledge to assess appropriateness and suitability of the respective investment service, transaction or products to its interest. The Bank shall be entitled to assume that the Professional Client is able to independently obtain the information required to make the investment decisions.
- 4.5. In transactions with a Professional Client, the Bank shall apply the *Orders Execution Policy for Transactions with Financial Instruments* and the *Policy on Prevention of Conflicts of Interests for Investment Services and Ancillary Services*. In accordance with provisions of Section 126.<sup>2</sup> of the Financial Instrument Market Law, the Bank shall not assess the suitability and appropriateness of an investment service and ancillary investment service to the interests of the Professional Clients.
- 4.6. Professional Clients may request to change their status either to the status of a Retail Client or Eligible Counterparty, in accordance with the procedure determined in the Policy, thus increasing or reducing their protection level.

## **5. STATUS OF A RETAIL CLIENT**

- 5.1. All Clients that do not comply with the criteria of either an Eligible Counterparty or a Professional Client, shall be classified as **Retail Client**.
- 5.2. The highest protection level is applied to the Retail Client.
- 5.3. In transactions with a Retail Client, the Bank shall apply the *Orders Execution Policy for Transactions with Financial Instruments* and the *Policy on Prevention of Conflicts of Interests for Investment Services and Ancillary Services* as well as other requirements determined in the Financial Instrument Market Law.
- 5.4. Retail Clients may request to change their status either to the status of a Eligible Counterparty or a Professional Client, in accordance with the procedure determined in the Policy, thus increasing or reducing their protection level.

## **6. STATUS COMPLIANCE CONTROL**

- 6.1. The Bank shall control the compliance of the status granted to the Client, on the basis of the information on transactions of the client, being at its disposal, as well as assessing the suitability of the investment service provided to the Client and compliance with the interests of the Client with a purpose to determine that the particular recommended transaction, or the executed transaction:
- 6.1.1. corresponds with the purpose of investments of the relevant Client;
  - 6.1.2. is the one that the Client is able to financially assume any investment risks, being related to its investment purposes;
  - 6.1.3. is the one that the Client has necessary experience and knowledge, in order to understand the risk related to the transaction including sustainability risk, or Environmental, Social and Management Factors (ESG).
- 6.2. The Bank shall use the information, which is obtained in accordance with Paragraph 6.1 of this Policy, to determine whether the client has necessary knowledge, in order to understand the risks related to the offered type of service or product, and whether they correspond with the status granted to the Client.