

# RULES ON CLIENT CATEGORIZATION

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## 1. PURPOSE AND OBJECTIVE

These rules concern the categorization of clients receiving investment services from Arion Bank and are established in accordance with the Securities Transactions Act No. 108/2007.

The categorization of clients is an important part of investor protection as the legal protection afforded to clients differs depending on which category the client is in. Retail clients enjoy the greatest level of protection by law and professional clients and eligible counterparties enjoy less protection.

The objective of these rules is to ensure a consistent approach to categorizing clients and to specify the criteria which clients need to meet if they wish to be placed in a different category.

## 2. DEFINITIONS

For the purpose of these rules the following definitions shall apply:

1. *Client*: A client to whom Arion Bank provides investment services. Investment services mean any services and activities relating to transactions with financial instruments, i.e. the receiving, transmitting and execution of orders, portfolio management, investment advice and custody of financial instruments etc., cf. Article 1 of the Act.
2. *Retail client*: A client who is not a professional client, including individuals and smaller legal entities. It also includes other clients who the Bank has decided to treat as retail clients or who have requested to be categorized as such.
3. *Professional client*: A client who possesses the experience, knowledge and expertise to make their own investment decisions and properly assess the risks involved. The following are regarded as professional clients:
  - a. Legal entities which have operating licences or engage in regulated activities on financial markets, including financial institutions, insurance companies, funds for collective investment, pension funds and their management companies, as applicable, and other institutional investors.
  - b. Large companies, see definition in these rules.
  - c. National and regional governments, central banks and international institutions such as the International Monetary Fund, the European Investment Bank and similar institutions.
  - d. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financing transactions.
  - e. Clients who have been accepted as professional clients according to these rules.
4. *Eligible counterparty*: A client who falls under section a, b, or c of the definition of professional client, and agrees to be categorized as an eligible counterparty.
5. *Transactions of a significant size*: Single transactions with financial instruments worth ISK 5,000,000 or more.
6. *Large undertakings*: An undertaking is considered large if it meets at least two of the following size requirements:
  - a. Balance sheet total of the equivalent of €20,000,000 or more.
  - b. Net annual turnover of the equivalent of €40,000,000 or more.
  - c. Own funds of the equivalent of €2,000,000 or more.



In these rules, *opting up* means when a client is moved into a category which grants less protection than the current categorization. *Opting down* means when a client is moved into a category which grants less protection than the current categorization.

### 3. CLIENT CATEGORIZATION

All clients shall be categorized before they are provided with investment services.

Arion Bank categorizes all clients as retail clients, unless available information shows that a different categorization is appropriate, e.g. annual financial statement or verification of an operating licence. Information on which categorization is based shall be archived.

Any agreement made with clients shall specify to which category they belong. Furthermore, the client shall be informed of their right to request to be placed in a different category.

Eligible counterparties shall confirm their categorization in writing.

### 4. APPLYING FOR A DIFFERENT CATEGORY

#### 4.1 GENERAL

Clients are entitled to ask to be placed in a different category. Any such request should be made in writing.

All applications to change category, with applicable documents and a record of the Bank's approval or rejection, shall be archived.

#### 4.2 OPTING DOWN

A client shall always be given a greater level of protection if requested. Therefore a professional client may always request to be treated as a retail client, and an eligible counterparty may always request to be treated as a professional client or retail client

Arion Bank may at any time opt a client down, at its own initiative, granted the Bank does not discriminate between clients. Therefore, the Bank may decide to categorize a professional client as a retail client and an eligible counterparty as a professional client or retail client. Clients shall be informed of any such change.

#### 4.3 OPTING UP

A professional client who meets the appropriate criteria may always request to be treated as an eligible counterparty.

A retail investor may request to waive the protection granted by their current categorization, and to be treated as a professional client.

A retail client who wishes to opt up, must prove that two of the following criteria have been met:

- a) The client has carried out at least forty transactions, of a significant size, in the last 12 months on the relevant market.
- b) The size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds €500,000.
- c) The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

When evaluating criterion a), the client shall submit a statement containing information on transactions.

When evaluating criterion b), the net value of the client's financial instrument portfolio is used as a reference. Deposits are considered to be part of the financial instrument portfolio. The client shall submit a statement containing information on the financial instrument portfolio and/or deposits. Assets belonging to a spouse, dependent children or related undertakings are not considered.

When evaluating criterion c) the client shall provide information and/or material on which professional position they have held on a financial market which they believe meets the stipulated criterion and when they held this



position. Examples of positions which meet this criterion are: fund manager, broker, position in asset management, direct involvement in a company's securities issues etc.

If a client is a legal entity, when evaluating criterion c) the Bank shall consider the experience of the agent acting on the entity's behalf.

The client's contact person gathers the required information and material from the client to assess the above. The client's contact person and a manager shall confirm whether the client meets the criteria set out in these rules on changing category. The client shall be informed of the conclusion reached.

## 5. VALIDITY OF CATEGORIZATION

Once approved by Arion Bank, the new categorization shall apply until the client asks to be placed in a different category. Arion Bank may at any time opt a client down, at its own initiative, cf. Article 4.2 of these rules.

Should the Bank become aware that a client no longer meets certain criteria, appropriate actions shall be taken. Arion Bank can at any time request information to confirm that a client meets the applicable criteria.

## 6. ENTRY INTO FORCE AND PUBLICATION

These rules enter into force when they have been approved, and published on Arion Bank's intranet.

The rules shall be published on Arion Bank's website.

The rules shall be reviewed as often as deemed necessary, but at least every three years.