

## 1. PURPOSE AND OBJECTIVE

These rules concern the categorization of clients receiving investment services from Arion Bank and are established in accordance with the Markets in Financial Instruments Act No. 115/2021.

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, cf. Article 4 (1.15) of the Act.
2. **Retail client:** A client who is not a professional client or who has 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. Entities which have operating licences or engage in regulated activities in financial markets, including financial institutions, insurance companies, pension funds and funds for collective investments, sellers of commodities and commodity derivatives, and other institutional investors.
  - b. Large companies which meet at least two of the following criteria in terms of amounts, which shall be based on the official benchmark exchange rate as listed at any given time:
    1. balance sheet total of the equivalent of €20,000,000 or more
    2. net annual turnover of the equivalent of €40,000,000 or more
    3. own funds of the equivalent of €2,000,000 or more
  - 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. Other clients who have asked to be categorized as professional clients and the Bank has agreed to the request, provided that the criteria pursuant to current legislation and internal regulations have been met.
4. **Eligible counterparty:** A client who falls under section a), b), or c) of the definition of professional client, and agrees or requests to be categorized as an eligible counterparty.
5. **Financial instrument:** Financial instrument in the sense of Article 4 (1.17) of the Act.
6. **Deposit:** Deposit in the sense of Article 9 (4) of the Deposit Guarantees and Investor Compensation Scheme Act No. 98/1999.

## 3. CLIENT CATEGORIZATION

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

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

The categorization of clients as professional clients pursuant to Article 4.3 of the Rules shall not be older than two (2) years when the client in question asks to carry out transactions which require this categorization. If it is more than two years since the client was categorized as a professional client, a reassessment shall be made of their suitability, and where necessary further information requested from them, to confirm that they meet the requirements made by law and the Bank's internal rules as current at any given time.

Arion Bank shall inform the client which category the client belongs to. 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 advance in a verifiable manner.

## 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 on the form designed for this purpose. Applications to change category, with applicable documents and a record of the Bank's approval or rejection, should be archived by the Bank.

### 4.2 OPTING DOWN

A client will 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 discretion. Clients shall be informed of any such change.

### 4.3 OPTING UP

A retail client may request to be categorized as a professional client. In order for a retail client to be categorized as a professional client they must demonstrate that they meet at least two of the three criteria in Article 4.3.1 and the criteria in Article 4.3.2 of these rules.

#### 4.3.1 Criteria for transactions, value of financial instruments and deposits and position on financial market

Two of the following conditions need to have been met:

- a. The client has carried out transactions of a significant size in the last four quarters on the relevant market, on average at least ten transactions in each quarter. The client must have carried out transactions on the relevant market for at least 12 months on the date of assessment.
- b. The total value of the client's financial instruments and deposits amount to more than the equivalent of €500,000 in Icelandic krónur at the official benchmark exchange rate as listed at any given time.
- 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 assessing whether the client's transactions are of a significant size, consideration should be taken of the size of other transactions on the relevant market and whether the transactions strengthen the specialist knowledge and experience of the client.

When evaluating criterion b), the net value of the client's financial instruments and deposits is used as a basis. This means that only the part of the financial instrument and deposit portfolio which is unleveraged and not pledged shall be included in the value. It is not permitted to use the nominal value of the financial instruments as this does not reflect the actual size of the portfolio. Furthermore, the deposits must be available on demand. However, only the debt related to the relevant financial instruments, and if relevant, deposits, shall be taken into account, not the overall debt level of the client, such as investments in property or business. Unpaid transactions are not included in the value of the client's financial instruments. The client shall submit statements displaying information on the financial instruments and deposits and provide confirmation of the debt/pledging considered adequate by the Bank. Assets belonging to other persons, including a spouse, dependent children or related undertakings are not considered.

When evaluating criterion c), it shall be assessed whether the position of the client has enabled them to acquire knowledge of transactions or services with comparable qualities or levels of complexity to those in the proposed transactions. 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., member of a fund's investment committee, or at financial institution or similar positions.

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

#### 4.3.2 Criteria for specialist knowledge, expertise and experience

If the client meets two of three criteria in Article 4.3.1 it indicates that the customer can be categorized as a professional client. The client's contact person should also acquire the necessary information and material from the client so it is possible to carry out an independent and comprehensive assessment of whether the information provided gives sufficient assurance that the person in question has adequate specialist knowledge, expertise and experience to be able to take investment decisions themselves and to understand the inherent risk. It is not sufficient to use a statement from the client or confirmation based on an assessment from another securities firm. Whether a criterion has been met is wholly determined by a comprehensive assessment and whether it is in the client's interests to be categorized as a professional client. 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 in a durable medium of the conclusion reached and its legal effect.

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

### 5. ENTRY INTO FORCE AND PUBLICATION

These rules enter into force on 29 August 2023. The rules shall be reviewed as often as deemed necessary, but at least every three years. The rules shall be published on Arion Bank's intranet and website.