



**Policy No. 98-02-05 for Establishing Customer Status when
Providing Investment Services**

Riga, 2017

Content:

1.	<i>General Provisions:</i>	2
1.1.	Policy Status:	2
1.2.	Policy Prepared in Accordance with Regulatory Documents:	2
1.3.	Responsibility, Documentation Addressees:	2
1.4.	Terms Used in Policy:	2
2.	Basic Principles of the Policy:	3
3.	Basic Principles for Defining Customer Status:	4
4.	Basic Principles for Changing Customer Status:	4
5.	Persons in Charge of Policy Implementation:	6
6.	Annexes, related documents:.....	6

1. General Provisions:

1.1. Policy Status:

- 1.1.1. The policy for establishing Customer status when providing investment services is the basic document that regulates the Bank's actions in defining the Customer's status.

1.2. Policy Prepared in Accordance with Regulatory Documents:

- 1.2.1. This Policy has been prepared according to:
- The Law on Credit Institutions of the RL;
 - The Law on Financial Instruments Market of the RL
 - Other regulatory documents and recommendations, as well as internal regulatory documents of the Bank.

1.3. Responsibility, Documentation Addressees:

Process Coordinator: the Head of the Treasury.

Responsibility, Activity Areas:

This document is binding for all employees of the Bank whose duties are linked with providing investment services and accompanying investment services to Customers.

When the Policy is impossible to execute the employee who discovered that immediately informs the head of his structural unit, the process coordinator stated in the Policy and an employee of the Compliance Control Department for introduction of changes.

Documentation Addressees:

- head of the Individual and Corporate Resident Customer Service Department;
- head of the Individual VIP Customer Service Department;
- head of the International customer service department;
- head of the Treasury;
- head of the Trust Transactions Department.

1.4. Terms Used in Policy:

Authorized Transaction Partner –investment brokerage entities, credit institutions, insurance companies, investment management entities, pension funds and its management entities, other financial institutions who have been duly licensed and operate according to the legal acts regulating financial services, the state institutions, who manage the state debt, the Central Bank and international organisations;

Bank – AS „PrivatBank“;

Customer – an individual or legal entity to whom the Bank renders financial investment services or investment –related services;

Customer status (Status) – one of the three categories (private Customer, professional Customer or authorized transaction partner), which is used by the Bank in relation to the Customer, in order to evaluate and assign the envisaged investor interest protection level on the basis of previous experience and knowledge of the Customer about financial instruments, as well as on the basis of characteristics of the Customer's activities.

Financial Instruments – contracts that simultaneously create financial assets to one person and financial liabilities or equity instruments – to another person and that are stated in the Financial Instrument Market Law:

- transfer securities (shares, bonds, depositary certificates),
- investment certificates of investment funds and other transfer securities, which certify participation in investment funds or in equally treated joint investment enterprises,
- money market instruments,
- derivative financial instruments,
- derivative goods instruments.

Investment services – the investment services, which are provided by the Bank, as well as the related investment services, within the meaning of the Law

Law – the Financial Instruments Market Law of the RL

Policy – the Policy for establishing Customer status when providing investment services;

Private Customer – a Customer who is not a Professional Customer;

Professional Customer – one of the following entities supervised and licensed for operations on the financial market in the Republic of Latvia or another country:

- credit institutions
 - investment brokerage entities;
 - other licensed and regulated financial institutions;
 - investment funds and investment management entities;
 - insurance companies;
 - pension funds;
 - goods dealers;
 - entities that operate on their own account in the option contracts, future contracts or derivative Financial Instruments markets or in the derivative instrument base asset markets, and whose sole aim is to limit financial risks in the derivative Financial Instruments market or who perform transactions on the account of other participants of this market, or create prices for those, and who are guaranteed by the settlements system participants of that market if the latter undertake liabilities for executing the contracts concluded by such entities;
 - other commercial entities whose basic activities are investments in Financial Instruments and who make such investments in large volumes;
- commercial entities who match at least two of these three requirements:
- equity capital – at least EUR 2 million;
 - net turnover – at least EUR 40 million;
 - Balance value – at least EUR 20 million.
- states and municipalities, state institutions who manage the state debt, central banks of countries, the World Bank, the International Monetary Fund, the European Central Bank and other international financial institutions
- other commercial entities whose basic activities is investments in Financial Instruments and who make such investments in large volumes;
- a person who has been acknowledged as a Professional Customer in another country according to a procedure that is similar to the Law.

2. Basic Principles of the Policy:

- 2.1. The Bank implements the Policy according to the Law requirements in order to ensure classification of the Customer and granting proper status to the Customers.
- 2.2. The Policy states a clear and unambiguous position of the Bank in the granting of the status to the Customer, which is applied when providing investment services and/or accompanying

investment services to Customers (hereinafter – investment services), as well as ensures protection of the Customer interests.

3. Basic Principles for Defining Customer Status:

- 3.1. In order to define suitability and conformity of investment services appropriate to the Customer's interests, the Bank, prior to establishing business relations with the Customer, carries out classification of the Customer and grants him an appropriate status.
- 3.2. A Customer status is granted to all Customers, to which the Bank provides investment services. According to the Law the Customer may be provided with a status of a Professional Customer, a Private Customer or an Authorized Business Partner.
- 3.3. The Bank grants an appropriate status to the Customer considering the Customer's provided information about the Customer's prior experience and knowledge about investment services, as well as analysing other documents and indicators of the Customer's activities. The Bank documents provision of a status to the Customer in accordance with the Bank's effective procedures on provision of investment services.
- 3.4. The respective status is granted to the Customer and is revised by employees of the Treasury or Trust Operations Department.
- 3.5. Prior to initiation of provision of the investment services, the Bank employee servicing the Customer informs the Customer about the status granted to him by using the communication channels agreed upon with the Customer. The Bank employee servicing the Customer informs the Customer about the change of the Customer's status in a timely manner.
- 3.6. If managers (directors and/or authorised persons and/or beneficiaries) of the company that is a Customer of the Bank change, the Bank updates Customer status information based on the previous experience and knowledge of the Customer regarding investment services or accompanying investment services according to clause 3.3 hereof.

4. Basic Principles for Changing Customer Status:

- 4.1. To ensure control over compliance of the investment services to the Customer's Status, as well as compliance of the assigned Status to the Customer's activities and profile, the Bank monitors the Customer's activities with the Financial Instruments and is entitled to change the Customer's Status upon discovering certain features.
- 4.2. The Customer's Status may also be changed upon the Customer's incentive, on the basis of the Customer's application submitted to the Bank.
- 4.3. Prior to deciding about changing of the Customer's Status the Bank carefully assesses whether the Customer Status change is possible and whether it complies with the Law requirements.
- 4.4. If the Customer Status change is considered upon the Customer's incentive the Bank decides about the issue within 3 banking business days after receipt of the Customer's application.
- 4.5. In cases the change of the Customer's Status is impossible according to the Law, the Status may not be changed, and the Bank informs the Customer thereof by using preset communication channels.
- 4.6. The Private Customer's Status may be changed with an upgrade to the Professional Customer or the Authorized Transaction Partner Status solely in the cases stipulated by the Law.
- 4.7. The Professional Customer's Status may be changed to the Private Customer or the Authorized Transaction Partner Status.
- 4.8. The Authorized Transaction Partner's Status may be changed to the Professional Customer or the Private Customer Status.
- 4.9. A Private Customer may obtain the Professional Customer's Status if the Bank has assessed his knowledge and experience and they match at least two of the following criteria:
 - 4.9.1. The Customer has performed transactions of significant volume at a corresponding market – at least 10 transactions per quarter during four previous quarters;
 - 4.9.2. The value of the Customer's individual investment portfolio that includes financial funds and Financial instruments exceeds EUR 500,000;
 - 4.9.3. The Customer has at least 1-year-long experience in the financial sector in a position that requires knowledge on transactions and services that the Customer plans to execute or receive as a professional Customer.
- 4.10. Prior to deciding about the change of the Private Customer's Status to that of Professional Customer the Bank assesses his expertise, experience and knowledge in order to prove that the Customer is capable of constant investment decision-making and understands the risks involved considering the specific features of the estimates transactions or services.

- 4.11. Professional Customer Status can be granted in general or for a certain type of investment services, a transactions type, a certain transaction or a product.
- 4.12. Prior to granting the Professional Customer Status to the Customer the Bank warns him in writing about the investment protection rights, which the Customer might lose in the Professional Customer Status; the Customer should sign a confirmation that he has received such warning and understands consequences of loss of such rights. A written agreement is prepared for granting the Professional Customer Status.
- 4.13. The Customer whom the Bank has acknowledged as a Professional Customer provides the Bank with information about changes in his activities, which might affect the Customer's compliance with the requirements set for the Professional Customers. After receipt of information that the Customer no longer complies with the requirements set by the Professional Customer the Bank decides on cancelling the Status and informs the Customer about that in writing.
- 4.14. The Bank may grant the Professional Customer Status to a Private Customer generally for all provided services or for specific types of investment services, transactions or products.
- 4.15. The Professional Customer willing to obtain the Private Customer Status submits an application to the Bank where he states the type of an investment service, a transaction or a product, for which the Private Customer Status is required.
- 4.16. In order for the Professional Customer to receive the Private Customer Status, the Bank and the Customer enter a written agreement. Such agreement provides for the types of investment services, transactions or products to which the Private Customer Status is applicable.
- 4.17. The Authorized Transaction partner is entitled to demand that the Bank provides him with the status of a Professional Customer or a Private Customer. If the Authorized Transaction partner does not indicate directly which Status – Professional or Private Customer – should be granted to him, the Bank grants the Professional Customer Status.
- 4.18. The Bank may also apply the Authorized Transaction partner status for:
 - 4.18.1. goods dealers;
 - 4.18.2. companies conducting transactions on options, futures, or derivative Financial instruments or base asset derivative markets at their account with the sole purpose of limiting financial risks on the derivative Financial instruments market, or conducting transactions at account of other market players, or establishing prices for them, and which are guaranteed by members of the settlement systems on such markets, if responsibility of for execution of settlements is undertaken by the members of the settlement system on this market;
 - 4.18.3. other commercial entities the primary activity of which is investments in Financial instruments and that make such investments in bulk;
 - 4.18.4. commercial entities meeting two of the three requirements mentioned below:
 - 4.18.4.1. equity capital – at least an equivalent of 2 million euro;
 - 4.18.4.2. net turnover – at least 40 million euro;
 - 4.18.4.3. balance value – an equivalent of at least 20 million euro.
 - 4.18.5. states and municipalities, state authorities managing the state debt, central banks of countries, The World Bank, International Monetary Fund, European Central Bank, and other international financial institutions.
- 4.19. In order to apply the Authorized transaction partner status to persons listed in clause 4.18, the Bank should obtain consent of such person. The consent may be obtained for investment services in general, for individual investment services, or for individual transactions.
- 4.20. If the Bank Customer is a commercial entity mentioned in clause 4.18 registered in another EU member-state, the Bank applies such Customer Status to them, that would apply to them according to legal acts of said EU member-state. The Bank is entitled to grant a Customer Status to such commercial entity based on the information provided by said commercial entity on the legal acts of the respective EU member-state.

5. Persons in Charge of Policy Implementation:

- 5.1. **The Council of the Bank**, after Policy consideration at the meeting of the Board of the Bank, approves the Policy and generally supervises implementation thereof.
- 5.2. **The Board of the Bank** is in charge of:

- 5.2.1. control over implementation of the approved Policy;
- 5.2.2. approval of respective procedures to implement the Policy;
- 5.2.3. provision of prerequisites, funds, hiring qualified staff in order to implement provisions of the Policy.
- 5.3. The Treasury and Trust Operations Department are in charge of:
 - 5.3.1. granting a Status to all Customers, to whom the Bank provides investment services as required by the Law and the Policy;
 - 5.3.2. timely revision (amendments) of the Status to the Customers, to whom the Bank provides investment services;
 - 5.3.3. timely informing of Customers about their Status (change of the Status).
 - 5.3.4. storage of data on the assigned Customer Status and on its changes.
- 5.4. The Head of the Treasury is in charge of timely updates of the Policy and sending it for publication on the Bank website.

6. Annexes, related documents:

Title:	Location:	Responsible person:
Policy on Executing Orders when Providing Investment Services	Bank's internal information disk	Head of the Treasury
Conflicts of Interests Management Policy		Head of the Legal department and Head of the Compliance control department