



Baltic International Bank

## **CLIENT CATEGORISATION AND SERVICE SUITABILITY ASSESSMENT POLICY RELATED TO THE PROVISION OF INVESTMENT SERVICES AND ANCILLARY SERVICES**

### **Table of Contents**

1.	Organisational Properties of the Document .....	1
2.	Definitions and Interpretation .....	1
3.	General Provisions .....	3
4.	Client Categorisation or Re-categorisation .....	3
5.	Client Categorisation Criteria.....	4
6.	Assessment of Appropriateness and Suitability .....	6
7.	Final Provisions .....	7
8.	Responsibility and Supervision.....	7
	Related IRRs and Legal Framework.....	7

### **1. Organisational Properties of the Document**

<b>Version No</b>	<b>Effective date:</b>	<b>Summary of amendments</b>	<b>Pages</b>
1.	01.08.2018	The Policy has been revised to meet the MiFID II requirements: <ul style="list-style-type: none"> <li>• New Section 6 <i>Assessment of Appropriateness and Suitability</i> has been added;</li> <li>• Relevant terms have been formulated more precisely.</li> </ul>	7
2.	25.09.2019	The Policy has been slightly revised to meet the timeline approved by the Management Board and specified in the <i>document update schedule</i> . Editorial updates and clarifications have been made.	7
3.	12.04.2021	The Policy has been slightly revised to meet the timeline approved by the Management Board and specified in the <i>document update schedule</i> .	7
4.	21.04.2022	Bank has revised the Policy in accordance with the <i>document update schedule</i> approved by the Management Board. Bank has added relevant terms and made editorial updates and clarifications throughout the entire document.	8

### **2. Definitions and Interpretation**

For the purposes of this Policy:

**Bank** means Baltic International Bank SE.

**Client** means an investor, a natural or legal person to which Bank intends to provide or provides investment services (core services) and /or ancillary (non-core) services.

**Special Representative** means a representative specifically appointed by Client (legal or natural person) to make investment decisions on Client's behalf; Bank carries out suitability assessment (to assess the representative's expertise, experience and knowledge with respect to transactions in financial instruments).

**Act** means the Financial Instruments Market Act of the Republic of Latvia.

**Investment Services** means Bank-provided investment services and ancillary services within the meaning of the Act.

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	1/8
----------------	--	-------------------------------------	----------------	-----

**Questionnaire** means a standard-form Questionnaire devised by Bank, approved by the Management Board and completed by Client; the Questionnaire contains information needed to carry out a suitability assessment, i.e. to assess Client's expertise, knowledge and experience in the area of Investment Services and, based on the suitability assessment, assign the appropriate category to Client and determine Client's risk profile, thus ensuring the envisaged investor protection while providing Investment Services.

**Client Status (Category)** means one of the three categories (Retail Client, Professional Client, Eligible Counterparty) used by Bank in its relationship with Client in order to offer Client Investment Services that are suitable and appropriate for Client and provide Client with the appropriate level of investor protection afforded under the regulatory regime.

**Professional Client** is a client

- who possesses experience, knowledge and expertise to make his own investment decision and to properly assess the inherent risks assumed by Client while receiving from Bank Investment Services, and
- categorised by Bank as Professional Client in the manner prescribed by the Policy and Bank's "Client Categorisation Procedure".

**Retail Client** is a client that falls in neither the Professional Client category nor the Eligible Counterparty category.

**Eligible Counterparty (ECP)** means an investment firm, credit institution, insurance company, management company and investment fund within the meaning of *DIRECTIVE 2014/91/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions*, pension fund and management company of such fund, and other financial institutions that are licensed and operating under EU financial services legislation or the national law of the respective EU Member State or EEA Member State; national governments and other public bodies that deal with public debt; central banks; other persons listed in Article 124.<sup>2</sup> of the Act; other persons categorised by Bank as Eligible Counterparties in accordance with the Policy and Bank's "Client Categorisation Procedure".

**Asset Management Service** means management of Client's financial instruments in accordance with mandates given by Client on a discretionary basis (portfolio management service).

**Non-complex Financial Instruments** means financial instruments mentioned in Article 126.<sup>2</sup> (12) 1) a), b), c), d) and e) of the FIMA and other previously unmentioned financial instruments if they satisfy the following criteria specified in Article 57 Provision of services in non-complex instruments of Regulation (EU) No 2017/565:

- 1) they do not fall within Article 4(1)(44)(c) of, or points (4) to (11) of Section C of Annex I to Directive 2014/65/EU (the MiFID II Directive);
- 2) there are frequent opportunities to dispose of, redeem, or otherwise realise that instruments at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;
- 3) they do not involve any actual or potential liability for the client that exceeds the cost of acquiring the instruments;
- 4) they do not incorporate a clause, condition or trigger that could fundamentally alter the nature or risk of the investment or pay out profile, such as investments that incorporate a right to convert the instrument into a different investment;
- 5) they do not include any explicit or implicit exit charges that have the effect of making the investment illiquid even though there are technically frequent opportunities to dispose of, redeem or otherwise realise them;
- 6) adequately comprehensive information on their characteristics is publicly available and is likely to be readily understood so as to enable the average retail client to make an informed judgment as to whether to enter into a transaction in that instruments.

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	2/8
----------------	--	-------------------------------------	----------------	-----

**Regulation (EU) No 2017/565** means COMMISSION DELEGATED REGULATION (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

**Policy** means the “Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services” outlined herein.

**Internal Rules and Regulations (IRRs)** is an all-encompassing term for Bank’s internal regulatory and guidance documents such as policies, procedures, regulations, guidelines, and others.

**FCMC** is the abbreviation for the Financial and Capital Market Commission, the primary financial regulator in the Republic of Latvia.

### 3. General Provisions

- 3.1. The Policy sets forth requirements that Bank complies with when categorising Client (determining Client’s Status), undertaking client re-categorisation and ensuring compliance with other requirements of applicable laws with respect to Client’s status and protection of Client’s interests while providing Investment Services.
- 3.2. The Policy becomes effective upon final approval by Bank’s Supervisory Board (Supervisory Board). All amendments and/or supplements to the Policy become effective upon final approval by the Supervisory Board.
- 3.3. Bank has formulated the Policy in accordance with the Act and directly applicable EU legislation.

### 4. Client Categorisation or Re-categorisation

- 4.1. Before commencing the provision of Investment Services, Bank categorises Client as a Retail Client, Professional Client or Eligible Counterparty, gives Client a written notice thereof, and undertakes the suitability assessment (intended to assess the suitability of investment services for Client).
- 4.2. Bank determines (identifies) Client’s status and categorises or re-categorises Client, i.e. changes Client’s original category, based on the criteria set forth in the Act and based on the Questionnaire responses and Client-related information possessed by Bank. In certain instances, when Bank decides whether to categorise Client as Professional Client category, Bank examines the documents that substantiate the information contained in the Questionnaire.
- 4.3. If Bank becomes aware that Client no longer fits the category into which he was originally categorised, Bank may decide to change Client’s category after having given Client a prior written notice of the re-categorisation.
- 4.4. Client may request to be classified into a different category which, accordingly, entails the change in the level of investor protection. Client may request to be accorded another status in relation to all or in relation to specific types of Bank’s Investment Services, transactions or products, by submitting the relevant written application to Bank and by concluding the written agreement with Bank.
- 4.5. When considering Client’s application to be re-classified into the category that provides a lower level of investor protection, Bank requires that Client re-completes the Questionnaire (after having assessed the need for the re-completion) and furnishes Bank with information and documents that
  - prove Client’s expertise, experience and knowledge relating to the respective area of Investment Services
  - allow Bank to arrive at the conclusion that Client is capable of making appropriate investment decisions and of understanding the risks involved.
 To re-categorise Retail Client as Professional Client, Bank provides Client with a clear warning of the re-categorisation consequences and concludes the relevant written agreement with Client.
- 4.6. Bank informs Client of Client’s right to request for re-categorisation in the manner prescribed by the Act and Bank’s “Client Categorisation Procedure”.

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	3/8
----------------	--	-------------------------------------	----------------	-----

## 5. Client Categorisation Criteria

### 5.1. **Eligible Counterparty category.**

5.1.1. Bank may assign (without receiving Client's prior written consent) the **Eligible Counterparty category** to Client that is:

- 1) credit institution;
- 2) investment firm;
- 3) investment fund within the meaning of *DIRECTIVE 2014/91/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions* and management company;
- 4) pension fund and management company of such fund;
- 5) insurance company;
- 6) other financial institution that is licensed and carries on business under EU financial services legislation or the national law of the respective EU Member State or EEA Member State;
- 7) other persons mentioned in Article 124.<sup>2</sup> (1) or (6) of the Act.

5.1.2. Bank may assign the **Eligible Counterparty category** only after receiving the respective written consent from Client if Client is a legal entity, has provided the respective information in the Questionnaire and has confirmed that Client is:

5.1.2.1. a commodity dealer (a person who deals on own account in commodities or derivative commodity instruments) that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and that is subject to supervision by the competent local authority;

5.1.2.2. a firm (that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and that is subject to supervision by the competent local authority) which deals for its own account on markets in financial futures or options or other derivatives or on cash markets for the sole purpose of hedging positions on derivatives markets or which deals for the accounts of other members of those markets or makes prices for them and which is guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such a firm is assumed by clearing members of the same market;

5.1.2.3. a company (that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and that is subject to supervision by the competent local authority) whose main activity is making sizable investments in financial instruments;

5.1.2.4. a company that meets at least two of the three criteria listed below:

- a) own funds of at least EUR 2 million,
- b) net turnover of at least EUR 40 million,
- c) balance sheet total of at least EUR 20 million.

5.1.3. If Professional Client satisfies the criteria of Eligible Counterparty as set forth in the Act, then Professional Client may request to be assigned the Eligible Counterparty status in respect of all Investment Services as well as in respect of certain Investment Services, transactions or products by specifying the respective type of Investment Service, transaction or product in the written statement of consent submitted to Bank.

5.1.4. If Client is a dealer/firm/company referred to in sub-clauses 5.1.2.1 to 5.1.2.4 hereof, provides proof of its registration in a Member State of the European Union (EU) or the European Economic Area (EEA) and enjoys a Client status other than that established by Bank, then Bank may assign Client status assignable under the law of this respective Member State, based on Client-provided information about the applicable laws of the respective EU Member State or EEA Member State.

5.1.5. Client to be categorised as Eligible Counterparty according to sub-clause 5.1.1 hereof, may request (by concluding the respective written agreement with Bank) that Bank assigns either the Professional Client or Retail Client category providing a higher level of investor protection.

### 5.2. **Professional Client category.**

5.2.1. Bank may assign, without Client's written application, the Professional Client category in respect of all Investment Services and financial instruments to Client that is:

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	4/8
----------------	--	-------------------------------------	----------------	-----

- 5.2.1.1.a commodity dealer (a person who deals on own account in commodities or derivative commodity instruments) that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and that is subject to supervision by the competent local authority;
- 5.2.1.2.a firm (that is duly licensed to deal in the financial market in the Republic of Latvia or a third country and that is subject to supervision by the competent local authority) which deals for its own account on markets in financial futures or options or other derivatives or on cash markets for the sole purpose of hedging positions on financial derivatives markets or which deals for the accounts of other members of those markets or makes prices for them and which is guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such a firm is assumed by clearing members of the same market;
- 5.2.1.3.a company that is duly licensed to deal in the financial market in the Republic of Latvia or a third country or unlicensed company whose main activity is making sizeable (in significant size) investments in financial instruments;
- 5.2.1.4.a company that meets at least two of the three criteria listed below:
- a) own funds of at least EUR 2 million,
  - b) net turnover of at least EUR 40 million,
  - c) balance sheet total of at least EUR 20 million;
- 5.2.1.5.a person treated as a Professional Client in any other Member State of the European Union (EU) or the European Economic Area (EEA); the person is required to submit *documentary proof of client categorisation* showing the actual status/category assigned.
- 5.2.2. Bank may assign the Professional Client category to any Client who is not mentioned in sub-cl. 5.2.1 hereof but has applied for the category by submitting the written application, whose knowledge, experience and expertise have been assessed by Bank, and who meets at least two of the three criteria listed below:
- 5.2.2.1.Client carried out sizeable transactions on the respective financial market at a frequency of more than 10 per quarter, over the previous four quarters.
- 5.2.2.2.The size of Client's portfolio, defined as including financial instruments and cash deposits, exceeds the threshold of EUR 500 000. If an investment portfolio contains leveraged positions or financial instruments for which a margin is deposited, the net equity of the specific position or positions (i.e. the margin deposited or paid for the financial instrument plus any unrealised profits or unrealised losses due to changes in the value of the underlying) should be used in order to determine the size of the financial instrument as part of the portfolio. Bank should not use the notional value of the financial instruments, as this value does not reflect the actual size of Client's portfolio;
- 5.2.2.3.Client or Special Representative who makes investment decisions on Client's behalf has worked in the financial services sector for at least one year in a professional position that requires knowledge and expertise in respect of transactions and services which Client is planning to carry out or receive as a Professional Client.
- 5.2.3. Prior to classifying Client referred to in 5.2.2 above as Professional Client, Bank undertakes an adequate assessment of experience, knowledge and expertise of Client to obtain reasonable assurance, in light of the nature of the transactions or services envisaged, that Client is capable of making his own investment decision and understands the risks involved. When it comes to assigning the Professional Client category, Bank at all times enters into the written agreement with Client referred to in cl. 5.2.2 hereof.
- 5.2.4. Bank may grant the status of a Professional Client to Client referred to in sub-cl. 5.2.2 hereof in respect of all or selected types of Investment Services, types of transactions or in relation to a specific transaction or product, based on Client's application wherein Client indicates a particular type of Investment Service, transaction or product in relation to which Client is applying for the status of a Professional Client.
- 5.2.5. A Retail Client, who wants to be re-categorised as Professional Client, submits the application wherein Client indicates a particular type of Investment Service, transaction or product in relation to which Client is applying for the status of a Professional Client and concludes the written agreement with Bank.
- 5.2.6. Prior to granting the Professional Client category to a Retail Client, Bank gives a clear written warning of the rights (certain regulatory protections as a Professional Client) that Client will lose by

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	5/8
----------------	--	-------------------------------------	----------------	-----

- abandoning its then-current Retail Client status and acquiring Professional Client status instead. Client signs the 'Client Acknowledgement' section wherein Client confirms that he has been warned and is aware of the re-categorisation consequences.
- 5.2.7. Client grouped into the Professional Client category in the manner prescribed by sub-cl. 5.2.2 above is responsible for keeping Bank continuously informed of any change in his activities that could affect Client's current categorisation. If Bank obtains information proving that Client no longer meets the initial conditions that have previously made it eligible for a Professional treatment, Bank makes the decision to cancel the category and gives Client a notice of the cancellation. Bank has the right to request Client to submit the said information and the relevant supporting (confirming) documents.
- 5.3. All Clients that do not meet the criteria for classification as Professional clients or Eligible Counterparties are classified in the **Retail Client category**.
- 5.4. For Retail Clients, Bank ensures full protection of investor rights in the manner prescribed by the applicable laws of the Republic of Latvia and Bank's IRRs.
- 5.5. Both a Professional Client and an Eligible Counterparty may request Bank to re-categorise them as a Retail Client. For any request to be categorised as a Retail Client, Client must file a written application stating if this categorisation is for general purposes and relates to all Investment Services, or whether it is a specific request and relates to a specific type of Investment Service, transaction or product. Client wishing to be treated as a Retail Client submits the relevant application wherein Client indicates a specific Investment Service, transaction or product in relation to which Client is applying for the status of a Retail Client.
- 5.6. Professional Client is re-categorised to Retail Client in accordance with the respective written agreement between Bank and Client. The agreement stipulates certain types of Investment Services, transactions or product types provided on that basis (appropriate/suitable for Retail Clients).

## **6. Assessment of Appropriateness and Suitability**

- 6.1. Bank carries out appropriateness and suitability assessment separately in respect of Asset Management Service and other Investment Services to be provided to Client.
- 6.2. The purpose of:
- 6.2.1. the suitability assessment in respect of Asset Management Service is to evaluate: (i) Client's knowledge, experience and expertise relevant to investment services; (ii) Client's financial situation (including Client's ability to bear loss); (iii) Client's investment objectives (including risk tolerance). Thus, Bank undertakes the suitability assessment to ensure that the respective service provided to Client is suitable for Client and the transactions, which involve Client's assets transferred by Client to Bank under the asset management arrangement and are conducted by Bank as part of the service, meet all of the following criteria:
- 6.2.1.1. the transaction matches Client's investment objectives, including risk tolerance;
- 6.2.1.2. Client is able financially to take on risks associated with the transaction according to Client's investment objectives; and
- 6.2.1.3. Client (categorised as a Retail Client) possesses the required knowledge, experience and expertise to understand risks inherent in the transaction or management of Client's asset portfolio transferred by Client to Bank under the asset management arrangement;
- 6.2.2. the appropriateness assessment (appropriateness test) in respect of other Investment Services is to evaluate Client's knowledge, experience and expertise in the area of investments (especially regarding a particular Investment Service or financial instruments in connection with which the service is provided) in order to determine if the respective Investment Service or financial instruments is appropriate for Client.
- 6.3. Bank has the right not to carry out the appropriateness test when providing Investment Services (reception and transmission of orders for execution and execution of orders on Client's behalf) and ancillary investment services (except for ancillary investment service mentioned in Article 3 (5) 2)

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	6/8
----------------	--	-------------------------------------	----------------	-----

of the Act) if the respective Investment Service or ancillary investment service involves a non-complex financial instrument and simultaneously all other provisions referred to in Article 126.<sup>2</sup> (12) 2), 3) and 4) of the Act are complied with. {This clause is not applicable where Bank provides Investment Services (reception and transmission of orders for execution and execution of orders on Client's behalf) together with an ancillary investment service mentioned in Article 3(5) 2) of the Act}.

## 7. Final Provisions

- 7.1. Client is obligated to give Bank timely notice of any changes in previously submitted information (including the Questionnaire) which can affect Client's appropriateness for the assigned Client status or conformance to the status-related requirements. Client is obligated to submit, upon Bank's request, the documents that substantiate the correctness of the facts contained in the Questionnaire.
- 7.2. If Client refuses to provide the information requested in the Questionnaire or the documents that substantiate the correctness of the facts/information contained therein:
- a) about Client's knowledge, experience and expertise with respect to transactions in financial instruments (suitability assessment), investment objectives and financial condition (required to assess whether a Client-chosen asset management service is suitable for Client and satisfies Client's interests,  
**then Bank will not be entitled to provide asset management services to comply with Article 126.<sup>2</sup> (9) of the Act;**
  - b) about Client's knowledge, experience and expertise with respect to transactions in financial instruments (suitability assessment), investment objectives and financial condition (required to assess whether a Client-chosen other investment services --except for asset management services and advice concerning investing in financial instruments-- are suitable for Client and satisfy Client's interests,  
**then Bank will (i) warn Client in writing that Bank is unable to carry out Client's suitability assessment in an appropriate manner (to determine whether the services are suitable for Client and whether they meet Client's interest); (ii) will not be liable whatsoever for any consequences resulting from inaccurate or incomplete information submitted to Bank.**

## 8. Responsibility and Supervision

- 8.1. Bank keeps Client informed of all Policy-related changes. The most current version of the Policy is available for viewing on Bank's website <http://www.bib.eu> and at Bank's head office (Rīga, Grēcinieku 6).
- 8.2. The Management Board adopts the Policy. The Policy requires ultimate approval by the Supervisory Board.
- 8.3. The Management Board is responsible for overseeing the adherence to the Policy.
- 8.4. The Supervisory Board has the overall responsibility for supervising the implementation of the Policy.

## Related IRRs and Legal Framework

### Related IRRs:

- Client Categorisation Procedure;
- Procedure for Assessing Appropriateness and Suitability of Asset Management Service and Determining Risk Tolerance
- Methodology for assessing the appropriateness and suitability of services provided to retail clients as part of investment services
- Client Questionnaire for Investment Services and Ancillary Services in the Context of Brokerage Services and Forex Services (for natural/legal persons)
- Client Questionnaire for Investment Services and Ancillary Services (for natural/legal persons)

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	7/8
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**Legal Framework*****This Policy has been drawn up with reference to:***

- Credit Institutions Act [*Kredītiestāžu likums*] of the Republic of Latvia;
- Financial Instruments Market Act [*Finanšu instrumentu tirgus likums*] of the Republic of Latvia;
- FCMC's regulations and recommendations (guidelines);
- other binding pieces of legislation, such as acts, rules and regulations, at both EU and national level.

PO/270/257/V04	Client Categorisation and Service Suitability Assessment Policy related to the provision of investment services and ancillary services	Effective Date: 21.04.2022, Riga	K3, P2, I2, V1	8/8
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