

# Client classification rules

Applicable from 3 JANUARY 2018

for Danske Bank A/S Estonia branch, Danske Bank A/S Latvia branch and Danske Bank A/S Lithuania branch

## 1. INTRODUCTION

The customers who are investing in or trading with financial instruments have to be categorised by the Bank in order to provide each customer the level of investor protection that corresponds to their knowledge and expertise. These rules describe the principles how we categorise both existing and new customers.

## 2. CUSTOMER CATEGORIES

Customers are categorised either as:

- retail client
- professional client or
- eligible counterparty.

Retail clients have the highest degree of investor protection, and the category covers most of the bank's customers, including all individuals and most small and medium-sized enterprises. In general, all customers who are not categorised as professional clients or eligible counterparties are categorised as retail by default.

Professional clients are customers who have a sufficient degree of experience, knowledge and expertise to take their own investment decisions and to evaluate the underlying risk. Professional clients have a lower degree of investor protection. Following customers are categorised as professional by default:

- entities which are required to be authorised or regulated to operate in the financial markets, such as credit institutions, investment firms and other authorised or regulated financial institutions, insurance companies, collective investment schemes and management companies of such schemes, pension funds and management companies of such funds, commodity and commodity derivatives dealers, locals, other institutional investors;
- large undertakings meeting two of the following size requirements on a company basis:
  1. balance sheet total: EUR 20 000 000;
  2. net turnover: EUR 40 000 000;
  3. own funds: EUR 2 000 000;
- national and regional governments, including public bodies that manage public debt at national or regional level, Central Banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations;

- other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

Eligible counterparties include investment firms, credit institutions, insurance companies, collective investment funds and collective investment fund managers, pension funds and pension fund managers, other financial institutions authorised by a financial supervisory authorities, also national governments, public bodies etc. in accordance with applicable legislation.

All customers are notified by the Bank of their respective categorisation in durable form, usually in the agreement. The categorisation will be valid until further notice is given by the customer, or the Bank obtains information that implies that the categorisation is no longer valid.

## 3. RE-CATEGORISATION INITIATED BY THE BANK (CUSTOMERS WITH AN INCORRECT CATEGORISATION)

The Bank may, on its own discretion, categorise a customer in accordance to applicable legal requirements. The customer is informed of the new category in written form.

## 4. RE-CATEGORISATION INITIATED BY THE CUSTOMER

Upon customer's written request, the Bank may agree to change the categorisation to following:

- retail client to be treated as professional client;
- professional client to be treated as retail client;
- professional client to be treated as eligible counterparty;
- eligible counterparty to be treated as retail client;
- eligible counterparty to be treated as professional client.

The Bank is not obliged to grant such a request.

The Bank may, either on its own initiative or at request, treat the customer as a professional or retail client where they might otherwise be considered as an eligible counterparty or as a retail client where that customer is considered as a professional client. It is the responsibility of the customer to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.

Retail client may be treated as a professional client in respect of specific type of transaction. In this case the Bank assesses the customer in accordance with the customer's application. The customer shall submit an application in writing to the Bank expressing a wish to be treated as a professional client in respect of specific investment service or transaction or type of transaction or service.

The Bank shall assess, if the customer has expertise, experience and knowledge in light of the nature of the transactions or services envisaged, that the client is capable of making investment decisions and understanding the risks involved, has impeccable business reputation and higher education. Furthermore, at least two out of the following criteria shall be satisfied:

1. the customer has carried out transactions, in significant size (at least in amount of 5000 euros per transaction), on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
2. the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds EUR 500 000;
3. the customer works or has worked for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

The Bank shall be obliged to provide to the customer a written explanation and the customer shall confirm as to what rights the customer may be deprived of in the event he/she is classified as a professional client.

The customer shall be obliged to confirm in writing submitting a respective document (which is not part of the agreement) to the Bank, certifying that he/she is aware that if he/she is categorised as a professional client, he/she may be deprived of certain rights.

Professional clients are responsible for keeping the Bank informed about any change, which could affect their current categorisation.

## 5. DIFFERENCES ARISING FROM CATEGORISATION OF CUSTOMERS IN THE PROVISION OF INVESTMENT SERVICES AND ANCILLARY SERVICES

**5.1.** If the customer is regarded as a retail client in the provision of investment and ancillary services, the client receives the maximum protection of their interests pursuant to the applicable legislation.

**5.2.** If a retail client is regarded as a professional client in relation to specific products or transactions:

- upon provision of the investment advisory services, the customer is presumed to be able to bear any risks related to the investment services which are in conformity with the investment objectives of the customer, and the customer is presumed to have knowledge and experience with regard to such products and services, in relation to which the customer is categorised as a professional client (only investment objectives are assessed);
- as regards investment services other than investment advisory services, a professional client is presumed to have sufficient knowledge and experience to be able to understand the risks related to specific investment services or transactions, or transaction or product types, in regard of which the customer is categorised as a professional client and

the Bank is not obliged to assess the knowledge and experience of the customer (no assessment is made);

- the Bank is not obliged inform the customer, with an account that includes positions in leveraged financial instruments or contingent liability transactions, where the initial value of each instrument depreciates by 10 % and thereafter at multiples of 10 %.

With regard to other services, the investor protection regulation for the retail client shall apply.

**5.3.** If a customer is regarded as a professional client in providing investment and investment ancillary services, the level of protection of interests of professional clients is lower than in the case of a retail client, among other things (in addition to the stipulations provided in clause 5.2):

- upon providing investment advisory services, in addition to sufficient knowledge and experience a professional client is also presumed to have the financial capacity to bear any risks related to the investment service which is in conformity with the investment objectives of the customer and the Bank is not obliged to assess the financial capacity of the customer (only investment objectives are assessed);
- as regards investment services other than investment advisory services, a professional client is expected to have sufficient knowledge and experience to be able to understand the risks related to investment services or transactions and the Bank is not obliged to assess the knowledge and experience of a professional client (no assessment is made).

**5.4.** If the customer is regarded as an eligible counterparty in providing the investment services and investment ancillary services, the customer protection level applied to the protection of interests of customers is lower than in the case of a retail client and professional client, including the following in addition to the stipulations provided in clauses 5.2 and 5.3.

- the Bank is not obliged to assess the suitability and appropriateness of the customer in connection with the desired investment service and/or ancillary service;
- the Bank is not obliged to give the customer any information on itself as a company and the provided services;
- the Bank is not obliged to apply the best execution rules to the orders of the customer upon making transactions.