*Translation from Bulgarian*

**RULES FOR CATEGORIZATION OF CLIENTS OF INVESTBANK JSC IN RESPECT OF INVESTMENT AND/OR ADDITIONAL SERVICES PROVIDED BY THE BANK IN ITS CAPACITY AS AN INVESTMENT FIRM**

**Chapter One**

**General Provisions**

**Scope**

**Art.** **1.** These Rules aim to define the categories, criteria and procedure for categorization of clients with whom the Bank enters into contracts for investment and/or additional services provided by it as an investment firm in compliance with the Markets in Financial Instruments Act (MFIA).

**Concept of client categorization**

**Art.** **2.** (1) Client categorization involves their determination as retail clients, professional clients and eligible counterparties.

(2) The categorization under para. 1 shall be performed on the basis of the information provided by the clients and according to the criteria and in compliance with the procedures established in these rules pursuant to the Markets in Financial Instruments Act (MFIA) and 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 (Delegated Regulation 2016/565).

(3) The categorization within the scope of these Rules shall include the initial client categorization and their subsequent re-categorization.

**Chapter Two**

**Categories of Clients**

**Section I**

**Eligible counterparty**

**Concept of eligible counterparty**

**Art.** **3.** (1) An eligible counterparty within the meaning of these Rules is a person from a Member State who is:

1. investment firm;
2. credit institution;
3. insurance company;
4. collective investment scheme;
5. management company;
6. pension fund;
7. pension insurance company;
8. other financial institution;
9. entity whose main activity is trading for its own account in commodities and/or derivative financial instruments on commodities;
10. legal entity which provides investment services or carries out investment activities related only to trading for its own account on the markets of financial futures or options or other derivative financial instruments on the money market only for the purpose to hedge positions on the derivative financial instruments markets, or which trades on behalf of other participants in these markets, or determines prices on their behalf, and which are guaranteed by clearing members of the same markets, where the responsibility for the execution of the contracts signed by such an entity is assumed by the clearing members of the same markets.
11. government of a state;
12. state body that manages state debt;
13. central bank;
14. international institution.

(2) An eligible counterparty shall also be a person referred to in para. 1 (1)-(14) from a third country subject to requirements equivalent to the requirements of the European Union law. Other entities who meet the criteria established by the requirements set out under Art. 71 of Delegated Regulation (EU) 2017/565, including third-country nationals, may also be considered eligible counterparties.

(3) The clients referred to in para. 1 and 2 shall be categorized as eligible counterparties in view of the following services and activities performed by the Bank with such clients:

1. receiving and transmitting orders of such clients relating to financial instruments, including intermediation for transacting in financial instruments for such clients;
2. executing orders for the account of such clients;
3. concluding transactions for the bank's own account with such clients;
4. providing additional services directly related to a service or activity referred to in para. 1-3 performed for such clients.

(4) The clients referred to in para. 1 and 2 may not be considered as eligible counterparties with regard to services and activities under para. 3, when they are re-categorized under the terms and conditions and according to the procedure under Art. 14 or 15.

(5) For services and activities other than those referred to in para 3, the clients identified as eligible counterparties in view of the services and activities under para. 3 shall be considered professional clients, except in the cases under Art. 14(4) and under Art. 15.

(6) With regard to the obligations of the Bank in performing services and activities referred to in para. 3 for clients categorized as eligible counterparties for which no exception is provided according to Art. 4, these clients shall be considered as professional clients.

Degree of protection

**Art.** **4.** (1) When providing services under Art. 3(3) to clients which in respect of these services are determined as eligible counterparties, the Bank shall not be required to observe the following requirements:

1. the requirements regarding the sufficiency of the information for the provided service;
2. the requirements for the provision of information by the clients about their knowledge and experience relating to the services provided by the Bank, as well as the obligation of the Bank to assess whether the provided services are suitable for the client;
3. the requirements for the execution of the orders in the best interest of the client in compliance with the order execution policy applied by the Bank, as well as the related obligations for notifying the applied policy, proving the compliance with it, etc.
4. the requirements for immediate, appropriate and accurate execution of the orders of the clients in compliance with the timing of the receipt of identical orders;

(2) The exceptions under the preceding paragraph shall not apply in the cases of re-categorization of the clients under Art. 3(1) and (2) with regard to the transactions, activities, services and financial instruments for which this re-categorization has been performed under Art. 14 or Art. 15.

**Section II**

**Professional Clients**

**Concept of professional client**

**Art.** **5.** (1) Professional client, under these Rules, shall be a client who has the experience, knowledge and skills to make its own investment decisions and to properly assess the risks associated with the investment and meets the criteria under the according to the categorization card attached as an appendix to the framework agreement for transactions in financial instruments.

(2) Professional clients shall be:

1. Entities which are required to obtain a permit to perform activities in the financial markets or the activities of which in these markets are otherwise governed by the national legislation of the Member State, irrespective of whether this legislation is consistent with Directive 2004/39/EU of the European Parliament and of the Council, as well as entities which have obtained a permit to carry out these activities or are otherwise governed by the legislation of a third state, as follows:

1. credit institutions;
2. investment firms;
3. other institutions subject to licensing or otherwise regulated;
4. insurance companies;
5. collective investment undertakings and their management companies;
6. pension funds and pension insurance companies;
7. entities with main activity being trading for their own account in commodities or derivative financial instruments on commodities;
8. legal entities which provide investment services or carry out investment activities related only to trading for their own account on the markets of financial futures or options or other derivative financial instruments on the money market only for the purpose to hedge positions on the derivative financial instruments markets, or which trade on behalf of other participants in these markets, or determine prices on their behalf, and which are guaranteed by clearing members of the same markets, where the responsibility for the execution of the contracts signed by such entities is assumed by the clearing members of the same markets;
9. other institutional investors.

2. Large undertakings which meet at least two of the following requirements:

1. balance sheet total – the equivalent in BGN of at least EUR 20,000,000;
2. net turnover – the equivalent in BGN of at least EUR 40,000,000;
3. own funds – the equivalent in BGN of at least EUR 2,000,000.

3. National or regional public authorities, governmental bodies involved in the sovereign debt management, central banks, international or supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.

4. Other institutional investors which main activity is investing in financial instruments, including entities which deal with securitisation of assets or other financial transactions.

(3) The clients under para. 2 shall be considered professional clients in respect of all transactions, investment services, investment activities and financial instruments, except in the cases under Art. 13 and Art. 15 of these Rules.

(4) The clients under Art. 3(1) and (2) shall be considered professional clients with regard to the services under Art. 3(3) when they are re-categorized as such pursuant to Art. 14 or Art. 15.

(5) The Bank shall accept as professional clients those who have been re-categorized as such under the terms and conditions and according to the procedure of Art. 16.

**Degree of protection**

**Art.** **6.** (1) When providing services to professional clients, the Bank shall provide a lower degree of protection compared to that applied to retail clients, including:

* 1. the professional client is provided with a limited amount of information in connection with the conclusion of the contract;
  2. the professional client is provided with a limited amount of information in connection with the provided services, including regarding the order execution policy, the expenses and the commissions and the procedure of keeping clients’ assets;
  3. when assessing whether an investment service other than investment advice and portfolio management is appropriate for the client, the Bank may assume that the client possesses the necessary experience and knowledge to understand the risks associated with the particular investment service, transaction or product for which that client is classified as a **professional client**.
  4. when making an assessment of an appropriate service in terms of investment advice or portfolio management for a professional client, the Bank may assume that in respect of the products, transactions and services for which it has been designated as a professional client, it has the necessary experience and knowledge;
  5. when making an assessment of an appropriate service in terms of investment advice for a professional client under Art. 5(2), the Bank may assume that this client has the financial ability to bear all related investment risks compatible with its investment objectives;
  6. when implementing the obligation for the best execution with respect to a professional client, the factor of the total value of the transaction is not determining;
  7. the Bank shall not be bound to notify the professional client of the objective difficulties that have arisen, preventing the correct execution of the orders;
  8. upon the execution of an order of a professional client, the Bank shall be bound to only provide the client with the essential information about the transaction;
  9. the Bank shall provide periodic reports for portfolio management in every 6 months;
  10. the Bank shall not be bound to notify the professional client for whose account it manages a portfolio when there are uncovered open positions under contingent transactions, as well as in case of losses in excess of a certain amount in transactions or transfers depending on future contingent events;
  11. the professional client shall not be subject to compensation by the Investor Compensation Fund;

(2) The exceptions under the preceding paragraph shall not apply in the cases of re-categorization of the clients under Art. 5 with regard to the transactions, activities, services and financial instruments for which this re-categorization has been performed under Art. 13 or Art. 15.

**Section III**

**Retail Clients**

**Concept of retail client**

**Art.** **7.** Retail client within the scope of these Rules is a client who does not qualify as a professional client or an eligible counterparty.

**Degree of protection**

**Art.** **8.** (1) When providing services to retail clients, the Bank shall provide them with the highest degree of protection.

(2) The exceptions under the preceding paragraph shall only apply in the cases of re-categorization of the clients under Art. 7 with regard to the transactions, activities, services and financial instruments for which this re-categorization has been performed under Art. 16.

**Chapter Three**

**Procedure for Client Categorization**

**Section I**

**Provision of information**

**Information provided by the Bank when concluding the contract**

**Art.** **9.** (1) Before concluding a contract for the provision of investment and/or additional services, the Bank shall notify its clients of the terms and conditions and criteria under which it defines them as professional or retail clients, as well as about the circumstances under which they may be determined as an eligible counterparty.

(2) The Bank shall notify its clients of their right to request to be classified differently and of the changes in their protection in that different classification, including:

* 1. to notify the clients that if they are classified as retail clients, they shall be entitled to request to be re-categorized as professional clients in general or in connection with certain services, transactions or financial instruments, provided that the requirements of Art. 16 are met for them, and that when performing such re-categorization with regard to the services, activities, transactions and financial instruments in connection with which it has been performed, limited protection shall be applied to these clients according to Art. 6(1);
  2. to notify the clients that if they are classified as professional clients in compliance with Art. 5(2), they shall be entitled to be re-categorized as retail clients in general or in connection with certain services, transactions or financial instruments, whereby they will benefit to the full extent of the protection under Art. 8(1) with regard to the services, activities, transactions and financial instruments in connection with which the re-categorization has been performed;
  3. to notify the clients that if they are classified as eligible counterparties in compliance with Art. 3, they shall be entitled not to be treated as such in general or in connection with certain services, transactions or financial instruments; such clients shall be treated as professional client unless they explicitly have requested to be treated as retail clients; when the clients want to be treated as retail clients, they shall enjoy a full degree of protection under Art. 8(1) with regard to the services, activities, transactions and financial instruments in connection with which the re-categorization has been performed.

(3) It shall be considered that the Bank has provided the information due according to the preceding paragraphs when it has provided these Rules to the clients when concluding the contract.

**Information provided by the client when concluding the contract**

**Art.** **10.** (1) Upon concluding a contract for the provision of services to a client, the Bank shall require and the client shall provide information by filling in the card, attached to these Rules together with additional information about their experience, skills and knowledge regarding financial instruments, as Appendix №1 to the contract for transactions in financial instruments.

(2) On the basis of the information provided under para. 1, the employee of the Bank who concludes the contract with the client shall categorize the client or, respectively, shall carry out the process of re-categorization according to the following sections of this chapter.

**Information provided by the client when performing the contract**

**Art.** **11.** (1) A client, re-categorized from a retail client to a professional client under Art. 16, shall be required to notify the Bank of any change in the data which have served as grounds for carrying out the relevant re-categorization.

(2) In case the Bank establishes, on the basis of the notification referred to in para. 1 or otherwise when carrying out activities for the account of that client, that the latter has ceased to meet the conditions for classification as a professional client, the Bank shall start applying to it the rules providing a higher degree of protection as for retail clients.

**Section II**

**Categorization**

**Initial categorization**

**Art.** **12.** (1) The initial categorization of clients shall be performed on the basis of the information provided by the clients on the questionnaire card attached to the Framework Agreement for Transactions in Financial Instruments.

(2) Clients who have declared the existence of a circumstance in the questionnaire card attached to the Rules and have provided relevant evidence thereof, shall be classified as professional clients in respect of all investment services, investment activities and financial instruments.

(3) Clients who have declared the existence of a circumstance under para. 1-14 of the questionnaire card attached to the Rules which classifies them as eligible counterparties under Art. 4 and have provided relevant evidence thereof, shall be categorized as such in respect of the services and activities under Art. 3(3), while for other services and activities they shall be considered professional clients.

(4) Clients for whom, according to the information provided by them, no circumstance of the questionnaire card attached to these Rules exists, shall be categorized as retail clients.

**Re-categorization of professional clients at their request**

**Art.** **13.** (1) Clients classified as professional clients pursuant to Art. 12(2), when they consider that they are not able correctly to assess and manage the risks related to the investment in financial instruments, shall address a request to the Bank for the provision of a higher degree of protection in general or in connection with certain services, transactions or financial instruments.

(2) The higher degree of protection shall be provided on the basis of a written agreement executed by and between the Bank and the client, which explicitly specifies the particular services, activities, transactions, financial instruments or other financial products in relation to which the client shall be provided with higher level of protection.

(3) The higher degree of protection under para. 2 shall ensure that the client will not be considered a professional client for the purposes of the regime applicable to the activities of the Bank. By signing the agreement under para. 2, the client shall be granted the status of a retail customer in general or in relation to the specific services, activities, transactions, financial instruments or other financial products. **Re-categorization of clients - eligible counterparties at their request (Appendix 1)**

**Art.** **14.** (1) Clients classified as eligible counterparties pursuant to Art. 12(3) may request not to be treated as such in general or in connection with certain services, transactions or financial instruments.

(2) The re-categorization shall be carried out on the basis of a written agreement which explicitly specifies the particular services, activities, transactions, financial instruments or other financial products in relation to which the client shall be provided with higher level of protection.

(3) The clients referred to in para. 1, re-categorized according to para. 2, shall be treated as professional clients, unless they explicitly request to be treated as retail clients.

(4) Where the clients referred to in para. 1 explicitly request to be treated as retail clients, Art. 13(4) shall apply to them.

**Re-categorization of professional clients and clients who are eligible counterparties at the initiative of the Bank**

**Art.** **15.** Any change in the categorization under Art. 13 and 14, except at the request of the client, may also be made at the initiative of the Bank pursuant to Art. 45(3) of Delegated Regulation (EU) 2017/565 of the Commission. The Bank shall inform its clients on a durable medium about each re-categorization initiated by the Bank as well as about the right of the client to request a different categorization. The notification shall also specify the accompanying restrictions on the level of client protection that this would lead to.

**Re-categorization of retail clients**

**Art.** **16.** (1) Clients classified as retail clients pursuant to Art. 12(4) may request to be re-categorized as professional clients in general or in connection with certain services, transactions or financial instruments.

(2) The clients referred to in para. 1 may be re-categorized as professional clients provided that at least two of the following criteria are met:

* 1. over the last year the entity has executed an average of 10 transactions for a quarter with a significant volume on a relevant market;
  2. the value of the investment portfolio of the entity, including financial instruments and cash deposits, is more than the equivalent in BGN of EUR 500,000;
  3. the entity operates or has operated in the financial sector for at least one year in a position that requires knowledge of the relevant transactions or services.

(3) The clients referred to in para. 1 shall submit a written request to the Bank to be treated as professional clients in general or in connection with certain investment services or transactions or with a certain type of transactions or investment product, declaring therein the existence of at least two of the criteria referred to in para. 2 and providing evidence thereof.

(4) The Bank shall take the necessary actions to ensure that the client meets the requirements under para. 2 by performing appropriate checks of the information provided in databases to which it has access, requesting reports from third parties and verifying the documents provided by the client.

(5) The Bank shall assess the received request under para. 2 and the information in Appendix 1 to the agreement for transactions in financial instruments and evidence provided with regard to:

1. the compliance with the requirements referred to in para. 2;

2. the ability of the client to make independent investment decisions and to assess the risks associated with them according to the nature of the transactions or services that the client intends to use or conclude based on the assessment of the Bank for the experience, skills and knowledge of the client.

(6) Upon performing a substantiated assessment that the circumstances referred to in para. 5 are met, the Bank shall give a written warning to the client that the latter will not enjoy the respective protection in the provision of services and performance of activities by the Bank, as well as the right to be compensated by the Financial Instrument Investor Compensation Fund, respectively that limited protection will be applied to the client pursuant to Art. 6(1), whereby the client shall declare to have been notified of these circumstances.

(7) The Bank shall re-categorize the client referred to in para. 1 as a professional client if the conditions are met and the procedure under the preceding paragraphs is observed.

**Re-categorization and restoration of the original categorization**

**Art.** **17.** (1) The client may submit a request for re-categorization upon the execution of the contract or subsequently at any time of its performance.

(2) Subsequent request for re-categorization shall be made in writing in compliance with the requirements for provision of information and documents established in these Rules.

(4) A client, re-categorized under these Rules, may at any time submit a request for restoration of their initial categorization.

**Supplementary Provision**

§1. The words, phrases and terms used in these Rules shall have the meaning given to them by MFIA, Ordinance No. 38 and Regulation 1287/2006 of the European Commission and Delegated Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms.

**Final Provisions**

§2. These Rules have been prepared in compliance with the requirements of the Markets in Financial Instruments Act and Ordinance No. 38 on the requirements for the activity of investment firms and 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 ("Delegated Regulation 2017/565"), as well as in other relevant regulations.

§3. These rules were adopted by decisions No. 257 of 4 July 2018 of the Asset and Liability Management Committee (ALMC) and approved by the Management Board with Decision No. 35 of 11 July 2018 and amend those approved by ALMC with Minutes No. 37 of 6 June 2014, adopted by the Management Board of Investbank JSC with Minutes No. 49 of 10 June 2014 and approved by the Supervisory Board of INVESTBANK JSC with Minutes No. 27 of 16 June 2014.

§4. The Rules are provided to be read and implemented by the employees and the other persons working under a contract with the Bank and performing activities related to the Bank's activity as an investment firm upon their taking office or when starting operations for the Bank. The persons under the preceding sentence shall declare this circumstance. The Rules may be located on the Bank's internal page, in Liquidity and Investment Services Division tab, Subdivision - Investment Firm.

§5. The Rules shall be provided to the clients of the Bank before concluding contracts with them. For this purpose, the Rules shall be placed in a prominent place for all clients in all offices, part of the branch network of the Bank.

Appendix 1

**TO INVESTBANK JSC**

**REQUEST for assigning a status of Professional Client**

I, the undersigned …………………………………………………………………, holder of ID Card ……………., issued on ………., with Personal Number ………………….., permanent address - ………………………,

**HEREBY**

**Declare that I want to be treated as a professional client:**

🞏 In general

🞏 In relation to:

🞏 Investment services / transactions ……………………………..

Specific types of transactions / Investment product ………………….

**AND HEREBY DECLARE THE FOLLOWING:**

I meet the requirement and criteria to qualify as a professional investor pursuant to the MFIA as follows:

***(check the correct)***

🞏 1) over the last year I have executed an average of 10 transactions per a quarter with a significant volume on the relevant market;

🞏 2) The value of my investment portfolio, which includes financial instruments and

🞏 cash deposits exceeds EUR 500,000;

3) I have been working /worked/ for at least one year in the financial sector at a position that requires knowledge of the relevant transactions or services.

**I am aware of the criminal liability under Article 313 of the Criminal Code that I bear for declaring false data.**

**You are considered to qualify as a professional client if you meet at least two of the conditions.**

**Based on the information provided by you, we will assess your competence, experience and knowledge in general or in relation to the investment services and/or instruments for which you want to be treated as a professional client. If we consider that you are able to make independent investment decisions and that you understand the risks associated with them, we will treat you as a Professional Client.**

**The Bank hereby warns you**

**As a professional client, you will not enjoy the protections for non-professional clients in the provision of services and activities, as well as the right to be compensated by the Financial Instrument Investor Compensation Fund!**

**1.** The Bank is not bound to provide you with detailed and comprehensive information about its legal personality, the offered services and financial instruments, the transaction costs, information about the client order execution policy, etc.

**2.** The Bank shall not provide you with detailed information about the financial instruments and the risks associated with them.

**3.** When assessing whether an investment service other than investment advice and portfolio management is appropriate for you, we may assume that you possess the necessary experience and knowledge to understand the risks associated with the particular investment service, transaction or product for which you are classified as a **professional client**.

**4.** When assessing the appropriate service when providing investment advice or portfolio management services, we may assume that in respect of the products, transactions and services for which you are classified as a professional client, you have the necessary experience and knowledge to understand the risks associated with the transaction or your portfolio management. We may also assume that you have the financial ability to bear all associated investment risks compatible with your investment objectives.

**5.** In order to achieve the best execution of your orders, the leading factor in concluding transactions for your account shall not be the total value of the transaction, including the price of the financial instrument and the costs associated with the execution, but other factors such as speed and probability of execution of the order.

**6.** We are not bound to inform you about the objective difficulties that have arisen and prevent the correct execution of your orders.

**7.** When concluding a transaction for your account, upon execution of an order provided by you, you will be immediately provided by e-mail with the essential information about the concluded transaction, as well as in case of change in already provided information.

**8.** If we declare insolvency or have our license revoked and become unable to meet our commitments to you, you will not be reimbursed by the Financial Instrument Investor Compensation Fund.

**DECLARATION by the Client**

I declare that I have been notified and accept the terms and conditions valid for Professional Clients.

Declarer: ………………………

/………………………………../

To

Mr./Ms. …………………..

**NOTIFICATION / REFUSAL TO BE CLASSIFIED AS A PROFESSIONAL CLIENT**

Dear Mr./Ms...,

In connection with your request to be treated as a professional client under the MFIA, we would like to inform you that according to the information provided by you and the assessment made by us on your competence, experience and knowledge in general or in relation to investment services and/or instruments, we consider that you are (not) able to make independent investment decisions and that you (do not) understand the risks associated with them, we will (will not) treat you as a Professional Client.

By designating you as a professional client at your request, you are bound to notify INVESTBANK JSC of any change in the data that served as the basis for your designation as a professional client.

In the cases where INVESTBANK JSC, in the course of its activity, finds that you have ceased to meet the conditions under which you have been designated as a professional client, INVESTBANK JSC will notify you and take the necessary measures to implement the higher degree of protection in relation to you.

Sincerely yours,

Director of Liquidity and Investment Services Division

###### *I, the undersigned Svetlana Velikova Milenkova certify the true translation from Bulgarian into English of the document attached. The translation consists of 12 pages.*

###### *Translator: ……………………..… Svetlana Velikova Milenkova*