

INFORMATION REGARDING CLIENT CATEGORIZATION UNDER THE MARKETS IN FINANCIAL INSTRUMENTS ACT

I. GENERAL INFORMATION

When providing investment and ancillary services, the Bank provides information, conducts client categorization, and notifies clients of the categorization performed.

Client categorization involves designating clients as retail clients, professional clients, or eligible counterparties, and is carried out based on information collected by the Bank and provided by clients, in accordance with the criteria and procedures established in the Bank's internal regulations and the Markets in Financial Instruments Act ("MFIA").

The categorization includes the initial categorization of clients and their re-categorization at their request, or at the Bank's discretion, in the event of changed circumstances that served as the basis for their categorization.

II. CRITERIA FOR CATEGORIZATION AND RE-CATEGORIZATION

1. Categorization of a client as a retail client

Retail client means a client who is not identified as a professional client or as an eligible counterparty.

When providing services to retail clients, the Bank shall ensure the highest level of protection.

2. Categorization of a client as a professional client

Professional client means a client who has the experience, knowledge and skills to make investment decisions independently and to properly evaluate the risks associated with the investment and who meets the criteria set out below.

The Bank categorize the following client categories as professional clients for all investment services, activities, and financial instruments:

1. Entities which are required to be licensed in the financial markets or whose activity in those markets is otherwise regulated by the national law of a Member State, whether or not it complies with a directive of the European Union, and entities authorized to carry out these activities or otherwise regulated by the law of a third country, as follows:

- a) Credit institutions;
- b) Investment intermediaries;
- c) Other financial institutions subject to licensing or otherwise regulated;
- d) Insurances companies;
- e) Collective investment schemes and their management companies;
- f) Pension funds and pension insurance companies
- g) Entities trading for own account in commodities or derivative financial instruments on commodities;
- h) Local companies;

i) Other institutional investors;

2. National and regional government bodies, government bodies involved in government debt management, central banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.

3. Large undertakings meeting at least two of the following conditions:

- a) balance sheet amount of at least BGN equivalence of EUR 20 000 000;
- b) net turnover of at least BGN equivalence of EUR 40 000 000;
- c) own funds - at least BGN equivalence of EUR 2 000 000.

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

When assessing whether the client meets the criteria in the previous paragraph, the Bank considers information and documents from the client and public sources, including official licenses and permits. For the criterion in item 3, available financial statements are also reviewed.

Where the information under previous paragraph is insufficient, the Bank may request additional information and documents from the client, and until receipt of the relevant information the client will be treated as retail client.

The professional client categorization provides a lower level of protection than that applied to retail clients, such as:

1. With the prior consent of the client or at the request of the client, The Bank shall have the right to agree to provide a limited amount of information on the investment services, activities and the financial instruments involved, the risks related to them, the costs and fees - not to provide the illustration showing the cumulative effect of costs on return, the applicable conversion rates and costs where any part of the total costs and charges is expressed in foreign currency, except when related to a derivative financial instrument;

2. In assessing whether an investment service and/or financial instrument is appropriate for a client, the Bank shall assume that the client possesses sufficient knowledge and experience to make independent decisions and to understand the risks associated with the investment service, financial instrument or product, for which the client is categorized as professional;

3. In executing client orders and taking measures to obtain the best possible result for the client, the Bank shall not be obliged to consider the total value of the transaction, including the price of the financial instrument and all costs related to the execution, the most important factor to achieve "best execution" of the client order;

4. The Bank shall not be obliged to inform the client of any significant difficulties related to the correct and prompt execution of the client orders;

5. The client shall not be entitled to compensation from the Investor Compensation Fund.

The previous paragraph shall not apply in case of re-categorization of professional clients into eligible counterparties with respect to the transactions, activities, services and financial instruments for which this re-categorization was made.

3. Categorization as a professional client upon client request and re-categorization

Clients who are not categorized as professional under item 2, including public sector organisations, local government bodies, municipalities, and private individual investors, may request to be categorized by the Bank as professional clients. The Bank may then choose not to

apply rules intended for a higher level of client protection if the clients fulfill at least two of the following criteria:

1. in the previous 4 quarters, the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter;
2. the size of the client's investment portfolio, which includes financial instruments and cash deposits exceeds the BGN equivalent of EUR 500 000;
3. the client works or has worked in the financial sector for at least one year at a position which requires knowledge of the transactions or services envisaged.

The Bank assesses the client's knowledge and experience to determine whether the client is able to make investment decisions and bear the risks associated with specific transactions and services, applying the criteria from the previous paragraph and the procedure set out in Section III.

When evaluating the criterion under item 1, the Bank assumes that a transaction is of a significant volume when its value is equal to or greater than EUR 10 000:

- a. The Bank shall consider the criterion met when the client has concluded at least 10 transactions with a specific instrument in a specific market during each of the previous 4 quarters, each of which is equal to or greater than EUR 10 000 or to a total value of transactions for the quarter EUR 100 000.
- b. The Bank shall consider that transactions in a particular instrument are transactions in a certain type of instrument / product, for example transactions in derivative financial instruments only, in shares only, in bonds only, etc.
- c. Transactions may be concluded both by using the investment services provided by the Bank and by using the investment services provided by another investment intermediary or bank. In the case of transactions concluded through another investment intermediary or bank, the client must submit a document (statement, report or similar document) certifying the period of the concluded transactions, the size of each transaction and the financial instrument / product subject of the transactions.
- d. The bank cannot categorize a client as professional with respect to financial instruments or services that are more sophisticated than the instruments and / or services used so far by the client (e.g., the bank cannot categorize a client as professional with respect to derivative financial instruments, if the client has so far traded mainly in simple financial instruments such as standard government bonds).

When evaluating the criterion under item 2, the Bank considers the criterion to be satisfied under the following circumstances:

- a. At the time of the assessment, the client holds an investment portfolio equal to or greater than the BGN equivalence of EUR 500 000, consisting of both cash deposits and financial instruments such as shares, units of mutual funds, bonds, derivative financial instruments and other financial instruments within the meaning of Art. 4 of the MFIA.
- b. The portfolio of financial instruments and cash may be held with both the Bank and another investment intermediary and / or bank. In case the investment portfolio is not held with the Bank, the client must present an up-to-date document at the time of the assessment (statement, report or a similar document) certifying the type and size of the assets.

When evaluating the criterion under item 3, the Bank considers the criterion to be satisfied when:

- a. The position in the financial sector occupied by the client is of a professional nature and is occupied in an area that allows the client to acquire knowledge of transactions or services that have comparable characteristics and comparable level of complexity to the transactions that the client intends to carry out, or to the services of the Bank that the client intends to use.
- b. In making the assessment, the Bank shall not take into account the knowledge the client possesses in relation to products of low complexity when the client wants to be treated as professional in relation to more complex products (e.g knowledge relating to sovereign bonds with standard conditions are not considered sufficient with regard to planned transactions in complex derivative financial instruments).

The assessment of the criterion under item 3 is carried out with respect to:

- a. for an individual client – for the client themselves;
- b. for a corporate client – for the individuals who manage and represent the client;
- c. in case of authorization – for the persons who have the right to carry out the relevant transactions on behalf of and for the account of the client.

4. Categorizing a client as an eligible counterparty

An eligible counterparty is a professional client that has the financial capacity to bear the investment risks corresponding to its investment objectives.

The Bank considers as eligible counterparties, in respect of all investment services and activities and financial instruments, the following categories of clients:

1. Investment intermediaries;
2. Credit institutions;
3. Insurance companies;
4. Collective investment schemes;
5. Managing companies;
6. Pension funds;
7. Pension insurance companies;
8. Other financial institutions that have a license or are regulated under the law of the European Union and the member states;
9. Governments of States;
10. Government bodies managing public debt;
11. Central banks;
12. International institutions;
13. Entities under items 1-12 from third countries, to which requirements equivalent to the requirements of the legislation of the European Union apply.

The Bank may also recognise as eligible counterparties other entities that meet the requirements specified in Art. 71 of Delegated Regulation (EU) 2017/565, including entities from third countries, as follows: entities falling into the category of clients that shall be regarded as professional clients.

In the case of an order from a client that is an entity from another jurisdiction, the Bank shall consider whether the client is defined as an eligible counterparty under the law of the country where the client is established.

Clients categorized as eligible counterparties shall enjoy the lowest level of protection and in the provision of investment services:

1. The Bank shall provide a limited amount of information about the investment services and activities and financial instruments for which the client is categorized as an eligible counterparty;

2. The Bank shall not be obliged to comply with the restrictions on offering and receiving of incentives;

3. The Bank shall not assess whether the provided investment services and the financial instruments offered are appropriate for the client;

4. The Bank shall not be obliged to apply the Client Order Execution Policy as an investment intermediary and shall not be obliged to prove that the orders were executed in accordance with it.

5. The Bank shall not be obliged to execute the client orders in the order of their acceptance;

6. The Bank shall not be obliged to inform the client of any significant difficulties arising in relation to the correct and prompt execution of the client orders;

7. The client shall not be entitled to compensation from the Investor Compensation Fund.

The previous paragraph shall not apply in case of re-categorization of an eligible counterparty into a professional or retail client with respect to the transactions, activities, services and financial instruments for which this re-categorization was made.

5. Re-categorization and provision of a higher level of protection at the client's request

The Bank carries out the re-categorization of a professional client to a retail client, providing a higher level of protection -either generally or in relation to certain services, transactions, or financial instruments - in the following cases:

1. When the client meets the criteria for a professional client, but the Bank and the client agree otherwise through signing the relevant request.

2. When the client formally meets the criteria for a professional client, but considers themselves unable to properly assess or manage the investment risks and submits a request for re-categorization to the Bank;

3. When the Bank is notified by the client of a change that leads to a modification of their categorization.

A client categorized as an eligible counterparty may request to be re-categorized as a professional or retail client and to receive the corresponding higher level of protection - either generally or in relation to specific services, transactions, or financial instruments.

When an eligible counterparty expressly requests to be re-categorized as a professional client, the Bank will re-categorize the eligible counterparty as a retail client, providing a higher level of protection regarding the services, activities, transactions, and financial instruments for which the re-categorization is performed.

If an eligible counterparty requests categorization as a client whose business relationship with the Bank is subject to the requirements set out in Art. 89, para. 1 of the LMFI, but does not expressly request categorization as a retail client, the Bank will re-categorize this eligible counterparty as a professional client.

Should an eligible counterparty expressly request to be re-categorized as a retail client, the Bank will re-categorize the eligible counterparty as a retail client, providing the highest level of protection regarding the services, activities, transactions, and financial instruments for which the re-categorization is performed.

6. Re-categorization of a client as an eligible counterparty upon their request

A client categorized as a professional client may request re-categorization as an eligible counterparty and obtain a lower level of protection - either generally or in relation to certain services, transactions, or financial instruments.

The Bank will re-categorize the client as an eligible counterparty if the client meets the requirements under item 4.

7. Re-categorization of a client as a professional client or eligible counterparty at the initiative of the Bank

In cases where the Bank determines that a client categorized as a professional client or as an eligible counterparty no longer meets the criteria under which they were classified as such, the Bank may, on its own initiative:

1. begin to consider a client who would otherwise be classified as an eligible counterparty as a professional or retail client;
2. begin to consider a client who is considered a professional client as a retail client.

III. PROCEDURE FOR CATEGORIZATION AND RE-CATEGORIZATION

1. Initial Categorization

A Bank employee identifies the need to carry out an initial categorization or re-categorization by checking whether a categorization has already been performed for the respective product or service, or whether the client continues to meet the criteria for this categorization.

When the current information is not provided during the contract signing process (e.g. during re-categorization), the Bank provides information regarding the conditions and criteria by which it categorizes its Clients, their right and the procedure to request different categorization, as well as changes to their protection when being designated as a different type of client, through the publication of this information.

The Bank employee collects the necessary information for client categorization through one of the following methods:

- a) Requires the client to complete a [Notification-Questionnaire for client categorization under MFIA](#) or [Notification for categorization of a client as an eligible counterparty under MFIA](#) template, as well as to provide the relevant evidence in cases where such information is not available in the Bank or is not publicly accessible;
- b) Completes the information in the relevant *Notification* based on already available or publicly accessible information and documents, giving the client the opportunity to review and, if necessary, correct any of the pre-filled responses;
- c) States in the concluded agreement the categorization of the client who will invest in units of investment funds and is categorized as a retail client in relation to the units of investment funds.

Based on the information and documents provided by the client, available and/or publicly accessible, the bank assesses and categorizes the client in relation to all or specific investment services, investment activities, and financial instruments as follows:

a) as a retail client – when the client does not meet the criteria under Section II, item 2, or Section II, item 3;

b) as a professional client – when the client meets the criteria under Section II, item 2;

c) as an eligible counterparty – when the client meets the criteria under Section II, item 3.

The Bank notifies the client through the relevant *Notification* regarding:

a) the categorization performed;

b) the level of protection resulting from the respective categorization;

c) the right to request re-categorization in writing.

Through the relevant *Notification*, the Client declares that they are:

a) informed about the performed categorization;

b) aware of the consequences of the categorization performed;

c) aware of the obligation to notify the Bank in writing of any changes in the data that served as a basis for the categorization.

2. Categorization or re-categorization as a professional client upon their request

In the event that the client does not meet the criteria under Section II, item 2 for categorization as a professional client, but wishes to be categorized as such - either generally or in relation to certain investment services or transactions, or with respect to a particular type of transactions or investment product - they must complete a [Client Request for Categorization or Re-categorization as a Professional Client under the MFIA](#) template.

A Bank employee will assess whether the client possesses the necessary knowledge and experience to independently make investment decisions and assume the risks associated with specific transactions and services, and will categorize the client according to the request, as follows:

a) as a professional client – when the client meets the criteria under Section II, item 2;

b) as a retail client – when the client does not meet the criteria under Section II, item 3.

The Bank notifies the client through the *Request* regarding:

a) the categorization performed;

b) the level of protection resulting from the respective categorization;

c) the right to request re-categorization in writing.

The Client declares through the *Request* that they:

a) have been informed about the categorization performed;

b) are aware of the consequences of the categorization performed;

c) are aware of the obligation to notify the Bank in writing of any changes in the data that served as the basis for the categorization.

3. Re-categorization or Provision of a Higher Degree of Protection

When a professional client requests to be re-categorized as a retail client in the cases stipulated in Section II, item 5, or, respectively, when a client - eligible counterparty requests to be re-categorized as a professional or retail client in order to ensure a higher degree of protection generally or for certain investment services or transactions, or for a certain type of transaction or investment product, the Client completes [Request for Change of Categorization and Provision of a Higher Degree of Protection, as per the MFIA](#) template.

When the client has requested re-categorization as a professional client, a Bank employee checks whether the client meets the requirements of Section II, item 3, and performs an assessment as set out in Section III, item 1.

The Bank notifies the client via the respective *Request*, regarding:

- a) the categorization performed;
- b) the level of protection resulting from the respective categorization;
- c) the right to request re-categorization in writing.

Through the *Request*, the Client declares that they are:

- a) informed about the categorization performed;
- b) aware of the consequences of the categorization performed;
- c) aware of the obligation to notify the Bank in writing of any changes in the data that served as the basis for the categorization.

4. Re-categorization as an eligible counterparty

In the event that a professional client requests re-categorization as an eligible counterparty and the provision of a lower degree of protection - either generally or in relation to certain services, transactions, or financial instruments - the client is provided with a [*Request for Re-categorization as an Eligible Counterparty under the MFIA*](#) template and is required to present evidence that they meet the criteria for an eligible counterparty.

A Bank employee checks whether the client meets the relevant requirements and:

- a) re-categorizes the client as an eligible counterparty - when the client falls under one of the categories specified in Section II, item 4;
- b) refuses to re-categorize the client-when the client does not fall under any of the categories specified in Section II, item 4.

The Bank notifies the client via the *Request* regarding:

- a) the categorization performed;
- b) the level of protection resulting from the respective categorization;
- c) the right to request re-categorization in writing.

The Client declares through the *Request* that they are:

- a) informed about the categorization performed;
- b) aware of the consequences of the categorization performed;
- c) aware of the obligation to notify the Bank in writing of any changes in the data that served as the basis for the categorization.