



**RULES FOR CUSTOMER CATEGORIZATION
OF INVESTMENT INTERMEDIARY
"KBC SECURITIES NV – BULGARIA BRANCH"**

*(Adopted at a session of the CEOs of KBC Securities NV – Bulgaria Branch,
Held on 02.02.2009)*

I. GENERAL PROVISIONS

Scope

Art. 1. The present Rules shall govern the conditions and procedure for performance of categorization of customers of investment intermediary KBC Securities NV – Bulgaria Branch (hereinafter referred to as the “investment intermediary”) in relation to the investment and additional services provided by the investment intermediary to its customers. The following rules have the purpose to categorize the clients in order to applicable Bulgarian laws, under art. 67, par. 2 of the Markets in Financial Instruments Act and are in accordance with Rules for customers categorization, accepted by KBC Securities, Belgium.

Definition of Customer Categorization

Art. 2. (1) Customer categorization shall represent the determination of customers as non-professional customers, professional customers and eligible counterparties.

(2) The categorization under par.1 shall be carried out on the grounds of the information submitted by the customers and in compliance with the criteria and upon observance of the procedures set forth in these Rules pursuant to the Markets in Financial Instruments Act (MFIA).

(3) Categorization, within the meaning of these Rules shall include the initial customer categorization and the customer re-categorization.

II. CUSTOMER CATEGORIES

1. ELIGIBLE COUNTERPARTY

Definition of an Eligible counterparty

Art. 3. (1) Eligible counterparty within the meaning of these Rules shall be **an entity from a member-state, which is a(n):**

1. Investment intermediary;
2. Credit institution;
3. Insurance company;
4. Collective investment scheme;
5. Managing company;
6. Pension fund;
7. Pension-and-social-insurance company;
8. Another financial institution;
9. Entity, whose principal activity is trading on its own account with commodities and/or derivative financial instruments on commodities;
10. legal entity that offers investment services and/or performs investment activities that are expressed only in trading on its own account on markets for financial futures or options or other derivative financial instruments and on the money market with the only objective of hedging of

positions on the markets of derivative financial instruments, or which trades on account of other participants in these markets, or determines the prices for them and which is guaranteed by a clearing member of the very same markets, when the responsibility for performance of the contracts entered into by such entity is assumed by clearing members of the same markets.

11. State government;
12. State authority governing a state debt;
13. Central bank;
14. International institution.

(2) Eligible counterparty shall also be an **entity under item 1-14 of par.1 from a third country, which has requested explicitly** to be treated as an eligible counterparty.

(3) The customers under par.1 and 2 shall be categorized as eligible counterparties in view of the following services and activities performed by the investment intermediary with such customers:

1. acceptance and forwarding of orders to such customers in relation to financial instruments, including intermediation for entry into financial instrument transactions for such customers;
2. execution of orders on account of such customers;
3. entry into of transactions on account of the investment intermediary with such customers;
4. additional services directly related to a service or activity under items 1-3, performed for such customers.

(4) The customers under par.1 and 2 may be treated not as eligible counterparties in respect of services and activities under par.3, where they are re-categorized under the conditions and procedure of art.14 or 15.

(5) For services and activities other than those specified in par.3, the customers determined as eligible counterparties in view of the services and activities under par.3 shall be considered professional customers, except in the cases under art.14, par.4 and under art.15.

(6) In respect of obligations of the investment intermediary upon performance of services and activities under par.3 for customers categorized as eligible counterparties, to which no exception is provided for under art.4, such customers shall be considered professional customers.

Degree of Protection

Art. 4. (1) Upon provision of services under art.3, par.3 to customers, who, in respect of such services are determined as eligible counterparties, the investment intermediary shall not be bound to comply with the following requirements:

1. the requirements about sufficiency of the information for the provided service;
2. the requirements for submission by the customer of information for the customer's knowledge and experience in relation to the services provided by the investment intermediary, as well as the obligation of the investment intermediary to judge whether the provided services are appropriate for the customer;
3. the requirements for execution of orders in the best interest of the customer in compliance with the policy for execution of orders applied by the investment intermediary, as well as the obligations related thereto for notification of the applied policy, proving of execution in compliance therewith and others;

4. the requirements for immediate, honest and proper execution of the customer's orders upon observance of the order of receipt of the identical orders.

(2) The exceptions under the previous paragraph shall not apply to the cases of re-categorization of customers under art.3, par.1 and 2 in respect of the transactions, activities, services and financial instruments, for which such re-categorization was carried out under art.14 or art.15.

2. PROFESSIONAL CUSTOMERS

Definition of a Professional Customer

Art. 5. (1) Professional customer within the meaning of these Rules shall be a customer that possesses experience, knowledge and skills in order to undertake self-dependent investment decisions and properly assess the risks related to investing and that meets the criteria under the appendix:

(2) Professional customers shall be:

1. Entities required to obtain a license to perform activity on the financial markets or the activity whereof on these markets is otherwise regulated by the national legislation of a member-state whether conformed to Directive 2004/39/EC of the European Parliament and the Council, as well as entities that obtained a license to perform these activities or otherwise regulated by the legislation of a third country, as follows:

- a) Credit institutions;
- b) Investment intermediaries;
- c) Other institutions liable to licensing or otherwise regulated;
- d) Insurance companies (corporations);
- e) Undertakings for collective investment and their managing companies;
- f) Pensions funds and pension companies;
- g) Entities trading by profession on its own account with commodities and/or derivative financial instruments on commodities;
- h) legal entities that offer investment services or perform investment activities that are expressed only in trading on their own account on markets for financial futures or options or other derivative financial instruments and on the money market with the only objective of hedging of positions on the markets of derivative financial instruments, or which trade on account of other participants in these markets, or determine prices for them and which are guaranteed by clearing members of the very same markets, when the responsibility for performance of the contracts entered into by such entities is assumed by clearing members of the same markets;
- i) Other institutional investors.

2. Big enterprises that meet at least two of the listed below conditions:

- a) Profit and Loss balance - at least 20.000.000 euro in BGN equivalency
- b) Net turnover- at least 40.000.000 euro in BGN equivalency
- c) Own capital- at least 2.000.000 euro in BGN equivalency

3. National and regional state authorities, state authorities that participate in the governing of the national debt, central banks, international and supranational institutions such as the World Bank, the International Currency Fund, the Central European Bank, the European Investment Bank and other

similar international organizations.

4. Other institutional investors whose principal activity is the investment in financial instruments, including entities that perform the services of securitization of assets or other financial transactions.

(3) The customers under par.2 shall be considered professional 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 customers under art. 3, par.1 and 2 shall be considered professional in respect of the services under art.3, par.3, when they are re-categorized as such pursuant to art.14 or art.15.

(5) The investment intermediary shall also accept as professional customers such customers that are re-categorized as such under the conditions and the procedure of art.16.

Degree of Protection

Art. 6. (1) Upon provisions of services to professional customers the investment intermediary shall ensure a lower degree of protection as compared to non-professional customers, including:

1. a professional customer shall be provided with a restricted volume of information in relation to the entry into of the contract;

2. a professional customer shall be provided with a restricted volume of information in relation to the provided services, including in respect of the policy for execution of orders, the expenses and commissions and the manner of keeping of customer's assets;

3. upon performance of an assessment for an appropriate service in respect of an investment consultation or portfolio management for a professional customer, the investment intermediary may assume that in respect of the products, transactions and services, for which it is determined as a professional customer, it possesses the necessary experience and knowledge;

4. upon performance of an assessment for an appropriate service in respect of an investment consultation for a professional customer under art.5, par.2, the investment intermediary may assume that this customer has the financial capacity to undertake all related investment risks, compatible with such customer's investment objectives;

5. the fulfillment of the obligation for best execution in respect of a professional customer the total transaction value factor is not decisive;

6. the investment intermediary shall not be bound to inform a professional customer for the arisen objective difficulties obstructing the strict execution of the orders;

7. upon execution of an order of a professional customer the investment intermediary shall be bound to provide such professional customer only with the material information for the transaction;

8. the investment intermediary shall provide the regular portfolio management reports every 6 months;

9. the investment intermediary shall not be bound to notify a professional customer, on whose account it manages a portfolio, when there are uncovered open positions under contingent transactions, as well as upon occurrence of losses exceeding a certain amount under transactions or transfers depending on future contingent events;

10. a professional customer shall not be subject to indemnification out of the Investor

Compensation Fund was established in Belgium.

(2) The exceptions under the previous paragraph shall not apply to the cases of re-categorization of customers under art.5 in respect of the transactions, activities, services and financial instruments, for which such re-categorization was carried out under art.13 or art.15.

NON-PROFESSIONAL CUSTOMERS

Definition of a Non-Professional Customer

Art. 7. Non-professional customer within the meaning of these Rules shall be customer that does not meet the requirements for a professional customer.

Degree of Protection

Art. 8. (1) Upon provision of services to non-professional customers the investment intermediary shall provide them with the highest degree of protection.

(2) Exceptions to the previous paragraph shall only be allowed in the cases of re-categorization of the customers under art.7 in respect of the transactions, activities, services and financial instruments, for which such re-categorization was carried out under art.16.

III. PROCEDURE FOR CUSTOMER CATEGORIZATION

PROVISION OF INFORMATION

Information Provided by the Investment Intermediary upon Entry Into a Contract

Art. 9. (1) Prior to entry into a contract for provision of investment and/or additional services the investment intermediary shall notify its customers of the conditions and criteria, under which it shall determine them as professional or non-professional ones, as well as of the circumstances, under which they may be determined as an Eligible counterparty.

(2) The investment intermediary shall notify its customers of **their right to request to be otherwise determined** and of **any changes in their protection upon their determination in another way**, including:

1. it shall notify the customers that when **determined as non-professional customers** they shall have the right to request to be re-categorized as professional customers in general or in relation to certain services, transactions or financial instruments, if in respect of them the requirements of art.16 are met, as well as that upon performance of such re-categorization in respect of the services, activities and financial instruments, in relation to which it is carried out, a limited protection shall apply to these customers under art.6, par.1;

2. it shall notify the customers that when **determined as professional customers** under art.5, par.2 they shall have the right to be re-categorized as non-professional customers in general or in relation to certain services, transactions or financial instruments, where they shall enjoy the full protection under art.6, par.1 in respect of the services, activities and financial instruments, in relation to which the re-categorization is carried out;

3. it shall notify the customers that when **determined as eligible counterparties** under art.3 they shall have the right not to be treated as such in general or in relation to certain services, transactions or financial instruments; such customers shall be treated as professional customers, unless they explicitly request to be treated as non-professional customers; when customers request to be treated as non-professional customers they shall enjoy the full protection under art.6, par.1 in respect of the services, activities and financial instruments, in relation to which the re-categorization is carried out.

(3) The investment intermediary shall be considered to have provided the information due under the previous paragraphs, once the investment intermediary has presented these rules to the customers upon entry into of the contract.

Information Supplied by the Customer upon Conclusion of the Contract

Art. 10. (1) Upon conclusion of a contract for provision of services to a customer the investment intermediary shall require that the customer also submits information by filling in of the card – appendix to the contract.

(2) On the grounds of the information supplied in accordance with par.1 the employee of the investment intermediary, who enters into the contract with the customer, shall categorize the customer, respectively carry out the customer’s re-categorization pursuant to the following sections of this chapter.

Information Supplied by the Customer upon Performance of the Contract

Art.11. (1) A customer re-categorized from non-professional customer to professional customer under art.16, shall be bound to notify the investment intermediary of any change in the data that served as a ground for performance of such customer’s re-categorization.

(2) In case that the investment intermediary establishes on the grounds of the notice under par.1 or otherwise upon the performance of activity on account a customer that such customer no longer meets the conditions for its determination as a professional customer, the investment intermediary shall start applying to the customer the rules ensuring higher degree of protection for non-professional customers.

PERFORMANCE OF CATEGORIZATION

Initial Categorization

Art.12. (1) The initial customer categorization shall be carried out on the grounds of the information supplied by the customers under item I of the card – appendix to the contract.

(2) Customers that declared presence of a circumstance under items I.1-I.4 of the card – appendix to the contract and presented respective proofs for that shall be determined as professional customers in respect of all investment services, investment activities and financial instruments.

(3) Customers that declared presence of a circumstance under item I of the card – appendix to the contract, which determines them as eligible counterparties under art.4, and presented

respective proofs for that, shall be categorized as such in respect of the services and activities under art.3, par.3, and for other services and activities they shall be considered professional customers.

(4) Customers, for which pursuant to the information supplied for them there is no circumstance under item I of the card - appendix to the contract, shall be categorized as non-professional customers.

Re-Categorization of Professional Customers upon Their Request

Art.13. (1) When **Customers determined as professional ones** under art.12, par.2, decide that they cannot properly assess and manage the risks related to investing in financial instruments, they shall send a request to the investment intermediary for ensuring of a higher degree of protection in general or in relation to certain services, transactions or financial instruments.

(2) The higher degree of protection shall be ensured on the grounds of a written agreement between the investment intermediary and the customer, which shall explicitly set forth the specific services, activities, transactions, financial instruments or other financial products in relation to which the customer shall be ensured higher degree of protection.

(3) The higher degree of protection under par.2 shall guarantee the customer that the customer shall not be considered a professional customer for the purposes of the applicable regime to the activity of the investment intermediary. By the signing of the agreement under par.2 the customer shall be given status of non-professional customer.

Re-Categorization of Eligible Counterparty Customers upon Their Request

Art.14. (1) **Customers determined as eligible counterparties** under art.12, par.3, may request not to be treated as such in general or in relation to certain services, transactions or financial instruments.

(2) Re-categorization shall be carried out on the grounds of a written agreement, which shall explicitly set forth the specific services, activities, transactions, financial instruments or other financial products in relation to which the customer shall be provided with higher degree of protection.

(3) A customer under par.1, re-categorized pursuant to par.2, shall be treated as a professional customer, unless such customer explicitly requests to be treated as a non-professional customer.

(4) When a customer under par.1 explicitly requests to be treated as a non-professional customer art.13, par.4 shall apply to such customer.

Re-Categorization of Professional Customers and Eligible Counterparty Customers upon Initiative of the investment intermediary

Art.15. Any change in the categorization pursuant to art.13 and 14, unless upon request of the customer, may also be carried out upon initiative of the investment intermediary.

Re-Categorization of Non-Professional Customers

Art.16. (1) Customers determined as non-professional customers pursuant to art.12, par.4 may request to be re-categorized as professional customers in general or in relation to certain services, transactions or financial instruments.

(2) The customers under par.1 may be re-categorized as professional customers in the presence of at least two of the following criteria:

1. in the past year the entity entered into 10 transactions with significant volume on respective market on the average;
2. the value of the entity's investment portfolio including financial instruments and cash deposits is more than 500 000 euro in BGN equivalence;
3. the person works or worked in the financial sector not less than one year on a position requiring knowledge about the respective transactions or services.

(3) The customers under par.1 shall send a **written request** to the investment intermediary to be treated as professional customers in general or in relation to certain investment services or transactions or to a certain type of transactions or investment product, where they shall declare the presence of at least two of the criteria under par.2 and present proofs for that. The customer shall also supply additional information for the customer's experience, skills and knowledge, as determined in item KBC Securities N.V – Bulgaria Branch of the card – appendix to the contract.

(4) The investment intermediary shall undertake the necessary acts in order to make sure that the customer meets the requirements under par.2 by the performance of respective checks of the supplied information in databases, to which it has access, request of information from third parties and examination of the documents supplied by the customer.

(5) The investment intermediary shall assess the received request under par.2 and the information and proofs presented in relation thereto in terms of:

1. observance of the requirements specified in par.2;
2. the presence of ability of the customer to take a self-dependant investment decisions and to assess the risks related to them, in accordance with the nature of the transactions or services, which the customer intends to use or to enter into, on the grounds of the assessment of the investment intermediary of the experience, skills and knowledge of the customer.

(6) Upon the achievement of a reasoned judgment that the circumstances under par.5 are present, the investment intermediary shall warn the customer in writing that the customer shall neither enjoy the respective protection upon the provision of services and the performance of activities by the investment intermediary, nor the right to receive compensation from the Investor Compensation Fund was established in Belgium, respectively that such customer shall enjoy restricted protection pursuant to art.6, par.1, as the customer shall declare that the customer has been notified of these circumstances.

(7) The investment intermediary shall re-categorize the customer under par.1 as a professional customer, if the conditions and the procedure under the previous paragraphs are complied with.

Performance of Re-Categorization and Reinstatement of the Initial Categorization

Art.17.(1) A customer may make a request for re-categorization upon conclusion of a contract or afterwards at any time during its performance.

(2) The request for re-categorization upon the conclusion of a contract shall be made by filling in of the respective part of the card—appendix to the contract.

(3) A further request for re-categorization shall be made in writing upon observance of the requirements for submission of information and documents, established in the respective part of the card – appendix to the contract.

(4) A customer re-categorized pursuant to these rules may at any time make a request for reinstatement of such customer's initial categorization.

SUPPLEMENTARY PROVISION

§ 1. The words, expressions and terms used herein shall have the meaning ascribed to them by the Markets in Financial Instruments Act, Ordinance № 38 and Regulation 1287/2006 of the European Commission.

FINAL PROVISIONS

§ 2 The Rules are composed in compliance with the requirements of the Markets in Financial Instruments Act and Ordinance № 38 on the Requirements to the Activity of Investment Intermediaries.

§ 3 The Rules were adopted at a session of the CEOs of KBC Securities NV – Bulgaria Branch, held on 02.02.2009.

§ 4 The Rules shall be supplied to the customers of the investment intermediary prior to conclusion of a contract with them.