



Rules on Customer Classification for Investment Services

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1. Scope and objectives

Landsbankinn classifies all customers it provides investment services to into one of the following categories: retail client, professional investor or eligible counterparty. The objective of these Rules is to ensure that Landsbankinn's customers, who wish to engage in securities trading where the Bank serves as intermediary, are classified in accordance with the provisions of the Act on Markets in Financial Instruments. These Rules are part of investor protection for customers, with the level of protection varying according to classification.

A customer is classified at the establishment of a business relationship.

2. Customer classification

2.1. Retail clients

Landsbankinn classifies the following parties as retail clients:

- » Natural persons
- » Legal entities and companies who do not meet the requirements of the Act on Markets in Financial Instruments on total balance sheet size, net annual turnover and/or equity to qualify as professional investors, cf. details in section 2.2 of these Rules.

Retail clients enjoy the greatest investor protection under the law.

2.2. Professional investors

Landsbankinn classifies the following parties as professional investors:

- » Large undertakings meeting at least two of the following conditions for net value based on the official reference rate for (buy rate) ISK/EUR as listed at each time:
 1. Balance sheet total is equal to or exceeds the amount of EUR 20 million in ISK.
 2. Net turnover is equal to or exceeds the amount of EUR 40 million in ISK.
 3. Own funds are equal to or exceed the amount of EUR 2 million in ISK.
- » Institutional investors whose main activity is to invest in financial instruments, including parties handling the securitisation of assets or other financing transactions.

Professional investor refers to customers who possess the experience, knowledge and specialised expertise to make their own investment decisions and properly assess the inherent risks. Less extensive demands are made of the Bank for information disclosure to professional investors as the Bank may assume that professional investors have the experience and knowledge required to understand the risk involved in securities transactions.

2.3. Eligible counterparties

Landsbankinn classifies the following parties as eligible counterparties:

- » Legal entities, in Iceland or abroad, licensed to operate or engaged in regulated activities in financial markets, including financial undertakings and financial institutions, insurance companies, collective investment undertakings and their management companies, pension funds and their management companies, as applicable, commodity and commodity derivatives dealers, local actors and other institutional investors.
- » National and regional governments, central banks and international institutions, such as the IMF, the ECB, the EIB and other similar international organisations.

Eligible counterparties enjoy the least investor protection under the law.

3. Notification of classification and agreement

Landsbankinn notifies customers in writing of their classification and informs each customer of its rights to reclassification and the legal ramifications.

For customers classified by Landsbankinn as eligible counterparties, the Bank shall acquire confirmation that the customer agrees to such classification.

4. Reclassification

4.1. Retail client reclassified as elective professional investor

Retail clients may apply in writing to the Bank to be reclassified as elective professional investors and can specify if the change should be permanent or only apply to specific transactions or type of transactions. In requesting reclassification to elective professional investor, the customer waives some of the rights and protection which a retail client enjoys. The Bank informs the customer of this in writing and the customer declares that he/she is aware of the consequences of waiving such legal protection.

Customers who request reclassification as professional investors with the Bank must, as a minimum, satisfy two of the following criteria:

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

In order to meet approval, the application of a retail client to be reclassified as elective professional investor must be accompanied by certain information and the Bank is obliged to evaluate the customer's expertise, experience and knowledge to determine whether this provides sufficient certainty that the customer can make own decisions on investments and realises the risks they involve.

Customers reclassified as elective professional investors are responsible for notifying the Bank of changes that may affect their classification as elective professional investors. If the Bank becomes aware that the customer no longer meets the requirements of an elective professional investor, the Bank will again reclassify the customer and notify of the change.

4.2. Elective professional investor reclassified as retail client

Elective professional investors can request to be reclassified as retail clients and thereby enjoy more protection.

4.3. Professional investor reclassified as retail client

Professional investors can request to be reclassified as retail clients and thereby enjoy more protection. Such reclassification is undertaken based on a written agreement to the effect that the customer is to be treated as a retail client. The agreement must state whether this applies in general or only to specific transactions, services, financial instruments or products.

4.4. Professional investor reclassified as eligible counterparty

Professional investors can apply to the Bank in writing for reclassification as eligible counterparties.

4.5. Eligible counterparty reclassified as professional investor

Eligible counterparties may request reclassification as professional investors thereby enjoying more extensive protection. Such reclassification is undertaken based on a written agreement to the effect that the customer is to be treated as a professional investor. The agreement must state whether this applies in general or only to specific transactions, services, financial instruments or products.

4.6. Eligible counterparty reclassified as retail client

Eligible counterparties may request to be reclassified as retail clients and thereby enjoy more protection. Such reclassification is undertaken based on a written agreement to the effect that the customer is to be treated as a retail client. The agreement must state whether this applies in general or only to specific transactions, services, financial instruments or products.

4.7. Customer requests to belong to more than one class

In general, Landsbankinn's customers belong to one class only. Customers may request to fall into different classes based on type of transaction. A customer can also request to belong to a certain class with respect to individual transactions.

4.8. Process of reclassification

Having received a reclassification application, Landsbankinn evaluates the application and accompanying documents. The customer is not reclassified until the Bank has verified that the customer meets the requirements of the Act on Markets in Financial Instruments.